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How to get rid of Mugabe

China's hot money problem

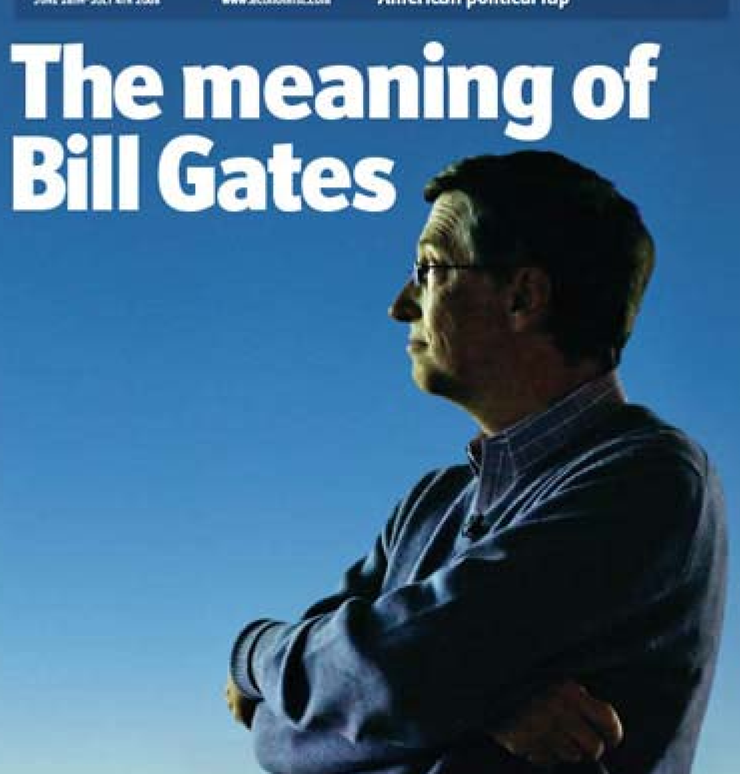
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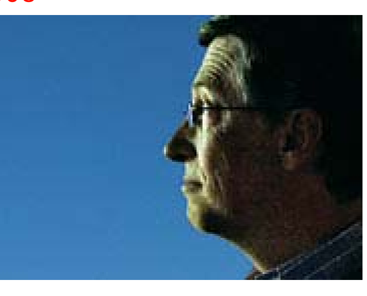
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The meaning of Bill Gates



Print Edition June 28th 2008

The meaning of Bill Gates
As Bill Gates' reign at Microsoft comes to an end, so does the era he dominated: leader



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Politics this week

Jun 26th 2008
From The Economist print edition

AP

The leader of **Zimbabwe's** battered opposition, Morgan Tsvangirai, withdrew from a run-off election against the incumbent president, Robert Mugabe, scheduled for June 27th, because he said too many of his supporters would be killed. Mr Mugabe looked set to win the ballot by default, but an increasing array of African leaders, including Nelson Mandela, began to turn against him. See article

A group of armed rebels in **Nigeria's** Delta region declared a temporary ceasefire after carrying out a daring attack on an offshore oil facility. Nigeria's oil output fell to its lowest level in 20 years. See article

The **Saudi** interior ministry said it had captured 520 suspected militants connected to al-Qaeda this year, some of whom had planned car-bomb attacks on an oil installation. The detainees included Asians and Africans as well as Saudis.

Five days after an Egyptian-brokered ceasefire between **Israel** and the Islamist **Palestinian** group Hamas, which runs Gaza, Israel shut its border crossings after Islamic Jihad, another Palestinian militant group, fired rockets into Israel. The group said the attack was in retaliation for the Israeli army's killing of one of its leaders in the West Bank, which is not covered by the ceasefire.

When no means wait and see

As France prepared to take over the rotating presidency of the **European Union**, the member countries remained in a lather over the rejection of the Lisbon treaty by Irish voters. The Irish prime minister was given until October to come up with a plan for what to do next. Most EU leaders made little secret of their preference: a second referendum that delivers a yes vote. See article

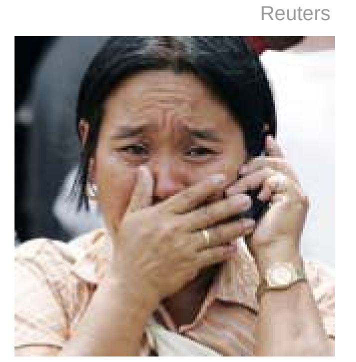
A pro-European coalition government was formed in **Serbia**, after the Socialists (the party of the late dictator, Slobodan Milosevic) backed President Boris Tadic's Democratic Party. The new government will remain implacably opposed to Kosovo's independence.

Grigory Yavlinsky, a veteran **Russian** liberal and repeated presidential candidate for his Yabloko party, stepped down as party leader. The opposition liberals no longer have a seat in the Russian parliament.

Polling in 19 countries conducted by World Public Opinion found that 14 had clear majorities opposed to **torture**, even in cases where terrorists had information that could save innocent lives. The highest levels of support for an unequivocal ban were found in Spain, Britain and France. In the United States, 53% were in favour of an unequivocal ban and 31% supported the torture of terrorists to save lives.

Disaster at sea

Reuters



In the **Philippines** a ferry carrying more than 800 people capsized in high seas caused by a typhoon. Some 770 people were feared dead. See article

The Chinese authorities reopened **Tibet** to foreign tourists, three months after the region was rocked by protests. The reopening followed the passage through Lhasa, the Tibetan capital, of the Olympic-torch relay, which passed peacefully amid tight security.

In a sign of warming **Sino-Japanese relations**, a Japanese warship arrived in the southern Chinese port of Zhanjiang for the first such naval port call since

the second world war.

Taliban militants in the tribal areas of **Pakistan** loyal to Baitullah Mehsud, a militant leader, killed at least 22 members of a tribe considered friendly to the government.

Ending a five-year ban, **South Korea** resumed imports of **American** beef after reaching an agreement on additional safeguards. There have been protests in Seoul against the lifting of the ban, seen as essential if a bilateral free-trade agreement is to be ratified.

Noises off

Cuba's foreign minister called the European Union's decision to lift its (notional) sanctions against his country a "step in the right direction". Fidel Castro had earlier denounced the EU's move, complaining about its calls for the release of jailed dissidents. See article

Several Latin American leaders joined Mr Castro in criticising a decision by the EU to standardise its procedures for expelling illegal migrants, drawing attention to the unrestricted **migration** of Europeans to the Americas in the past.

Ecuador's president, Rafael Correa, backed away from a previous agreement to restore diplomatic relations with Colombia, which he severed after a Colombian bombing raid on a guerrilla camp just over the border in March. Mr Correa said he would not restore ties until Colombia had "a decent government". In an unofficial referendum, Tarija, a gas-rich region in **Bolivia**, became the fourth province to vote for autonomy from the socialist central government. The governors in these provinces say they will not help to organise a recall referendum planned for August 10th in which President Evo Morales hopes to renew his mandate.

Cash principles

Campaign-finance data for May showed that **Barack Obama** had raised $22m in the month, his weakest this year and only slightly ahead of John McCain, who raised $21m. However, Mr Obama is expected to raise oodles of cash for the general election after announcing that he would reverse his earlier position and bypass the public financing system, which Mr McCain is sticking with. See article

AP

Mr McCain went to Canada where he delivered a boisterous defence of **free trade.** Mr Obama heavily criticised NAFTA and other free-trade agreements during the primaries, though he now admits that "sometimes during campaigns the rhetoric gets overheated and amplified".

California unveiled a bold plan to slash greenhouse-gas emissions that will touch all parts of the state's economy, including energy and cars. The blueprint comes three weeks after the federal Senate nixed legislation that would have introduced national standards.

A report by the **Justice Department's** inspector-general berated the department's officials for using political and ideological factors in recruiting new lawyers, which is illegal. The report found that applications for employment at the department that included words like "social" or "environmental" justice were rejected, and affiliations with prominent conservative groups were viewed positively.

Business this week

Jun 26th 2008
From The Economist print edition

After a two-year transition, **Bill Gates** prepared to step down from the day-to-day running of Microsoft, which he founded in 1975. He remains chairman and will be involved in some projects along with the company's chief executive, Steve Ballmer. The bulk of Mr Gates's time will now be devoted to his foundation, the world's richest philanthropic institution. See article

Nokia proposed to buy the 52% it does not already own of **Symbian**, which creates software used in about two-thirds of smartphones (for web browsing, e-mail and the like). Based in London, Symbian's other shareholders, which include Sony Ericsson and Siemens, responded positively to a deal; the code behind Symbian's technology will be made freely available to software developers, a challenge to Google's Android platform, which is also offered on an open-source basis.

Future promises

Saudi Arabia held a hastily convened **summit on energy** that brought together oil producers and officials and political leaders from consumer countries, including Gordon Brown. Everyone agreed that the record high price of oil was a worry, but the Saudis offered little relief other than to promise to increase production by 200,000 barrels a day, which was in line with expectations. The kingdom did take analysts by surprise, however, by saying it would seek to raise its capacity to as much as 15m barrels a day by 2018, up from 11.4m now.

After months of negotiations, China's steelmakers agreed to pay up to double the price for the **iron ore** they buy from Rio Tinto, the biggest-ever annual rise in the cost of the commodity. Some analysts now expect the steel producers to raise the price of their product to carmakers and the construction industry, adding to concerns about inflation in China.

With corn trading at near record highs, partly because of flooding in America's Midwest, **Bunge**, a big agribusiness group, announced that it had agreed to buy **Corn Products International** for $4.4 billion. The new company will supply corn products to food companies, brewers and beverage-makers—including Coca-Cola, which uses corn syrup.

Green endowments

High-net-worth individuals
% who invest in green initiatives, 2007
0 5 10 15 20
North America
Asia-Pacific
Latin America
Europe
Middle East
Sources: Merrill Lynch; Capgemini

The number of **high-net-worth individuals** (people with net assets of at least $1m, excluding their homes) stood at 10.1m in 2007, with total assets of $40.7 trillion, according to an annual report. The study also found that investments in financial vehicles that back green initiatives were becoming more popular. Half of HNWIs worldwide said they put their money into such investments because of higher returns. Only 5% of HNWIs in North America allocated part of their portfolio to green investments, but the primary motivation there was a concern for the environment.

Republic Services and **Allied Waste Services**, two of America's biggest rubbish-disposal companies, agreed to merge in a deal worth around $6.1 billion. Their combination will ensure their garbage trucks take more efficient routes.

In the largest conservation deal in the state's history, Florida made an offer to pay $1.75 billion to buy out a sugar producer that operates on 300 square miles (78,000 hectares) of land in the **Everglades**. The area will eventually be turned over to wetlands restoration.

Public enemy number one

Countrywide Financial's legal woes mounted when California, Illinois and Washington state filed separate lawsuits, accusing America's biggest private mortgage-lender of a range of deceptive and discriminatory trade practices stemming from subprime loans. Countrywide already faces a number of regulatory probes and legal challenges on its business practices and other issues, further complicating life for Bank of America, which is taking over the company. See article

The fashion for forging alliances with stock exchanges in the Gulf states continued when the **Qatari** government said that it would sell a 25% stake in the Doha bourse to **NYSE Euronext.** The decision is a blow to the London Stock Exchange, which has no important presence in the region, despite having the Qatar Investment Authority as its second-largest shareholder.

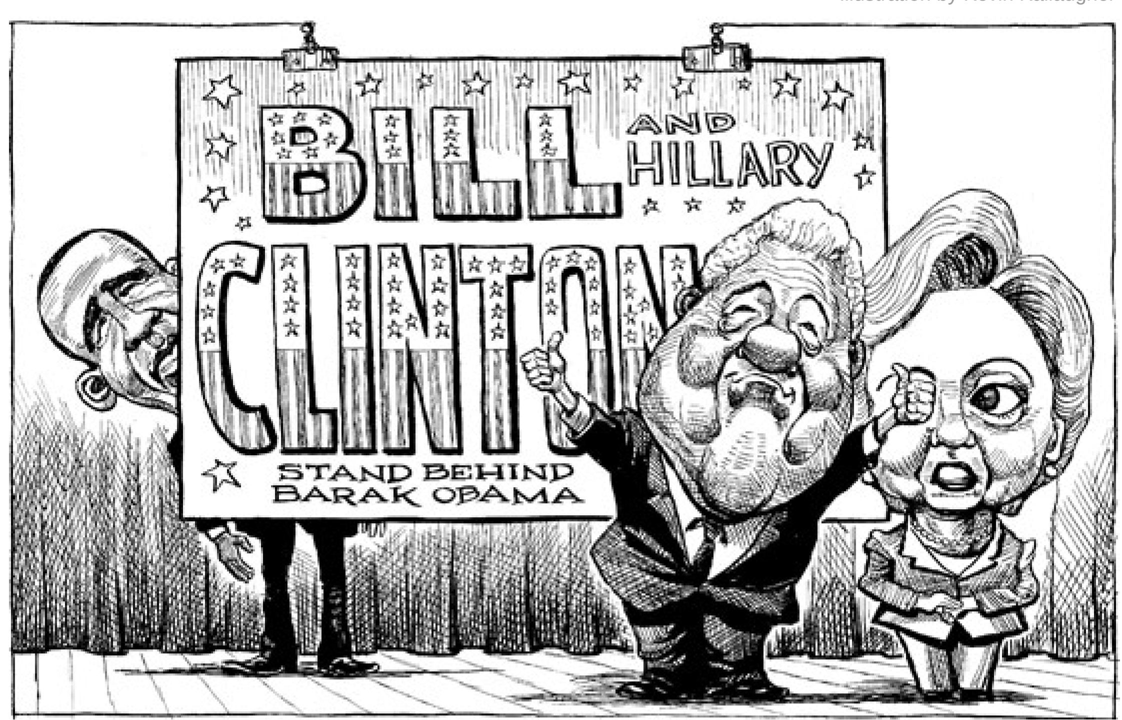
Barclays said it would raise £4.5 billion ($8.9 billion) through a share issue. Included among the investors buying the discounted shares were the Qataris—rumoured to be set to hold a 10% stake in the bank—and Sumitomo Mitsui Banking in Japan. Barclays will use about half of its new funds to shore up its balance sheet following write-downs.

MasterCard agreed to pay **American Express** $1.8 billion to settle a lawsuit that claimed it tried to stop financial institutions from issuing AmEx cards. American Express reached a similar settlement with Visa and others last year.

KAL's cartoon

Jun 26th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

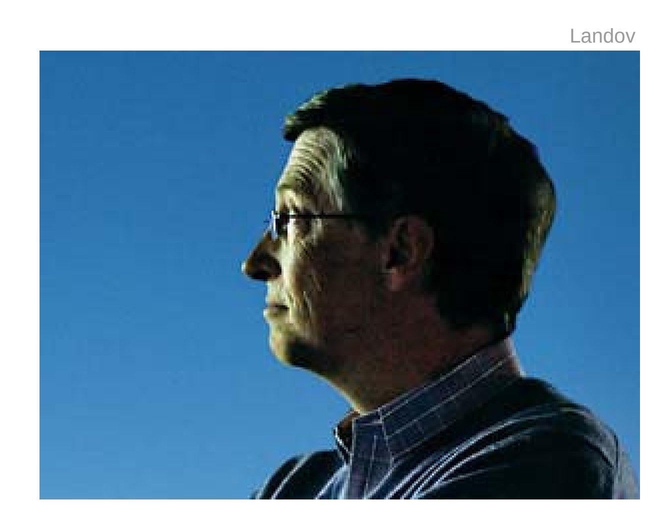


Microsoft

The meaning of Bill Gates

Jun 26th 2008
From The Economist print edition

Landov



As his reign at Microsoft comes to an end, so does the era he dominated

WHEN Bill Gates helped to found Microsoft 33 years ago there was a company rule that no employees should work for a boss who wrote worse computer code than they did. Just five years later, with Microsoft choking on its own growth, Mr Gates hired a business manager, Steve Ballmer, who had cut his teeth at Procter & Gamble, which sells soap. The founder had chucked his coding rule out of the window.

In becoming the world's richest man, Mr Gates's unswerving self-belief has repeatedly been punctuated by that sort of pragmatism. But those qualities have never been on such public display as they were this week, when the outstanding businessman of his age stepped back from a life's work.

As Microsoft's non-executive chairman, Mr Gates will devote most of his efforts to his charitable foundation, where he will pit himself against malaria and poverty, rather than Google and the Department of Justice. To choose such formidable new foes in the middle of your life takes bags of self-belief, but it is also pragmatic—and a little poignant. Mr Gates has revelled in the day-to-day details of running his firm. To let it all go is to acknowledge that his best work at Microsoft is behind him. It is to accept that the innovator's curse is to be transitory.

MS DOS and don'ts

As with many great innovations, Mr Gates's vision has come to seem so obvious that it is hard to imagine the world any other way. Yet, early on, he grasped two things that were far from obvious at the time, and he grasped them more clearly and pursued them more fiercely than his rivals did at Commodore, MITS or even Apple.

The first was that computing could be a high-volume, low-margin business. Until Microsoft came along, the big money was in maintaining a select family of very grand mainframes. Mr Gates realised that falling hardware costs, combined with the negligible expense of making extra copies of standard software, would turn the computer business on its head. Personal computers could be "on every desk and in every home". Profit would come from selling a lot of them cheaply, not servicing a few at a great price. And the company that won a large market share at the start would prevail later on.

Mr Gates also realised that making hardware and writing software could be stronger as separate businesses. Even as firms like Apple clung on to both the computer operating system and the hardware—just as mainframe companies had—Microsoft and Intel, which designed the PC's microprocessors, blew

computing's business model apart. Hardware and software companies innovated in an ecosystem that the Wintel duopoly tightly controlled and—in spite of the bugs and crashes—used to reap vast economies of scale and profits. When mighty IBM unwittingly granted Microsoft the right to sell its PC operating system to other hardware firms, it did not see that it was creating legions of rivals for itself. Mr Gates did.

The technology industry likes to sneer at Microsoft as a follower. And it is true that the company has time and again bought in or imitated the technology of others. That very first PC operating system was based on someone else's code. But Mr Gates's invention was as a businessman. His genius was to understand what he needed and work out how to obtain it, however long it took. In an industry in which visionaries are often sniffy about anyone else's ideas, the readiness to go elsewhere proved a devastating advantage.

And look at what happened when Mr Gates's pragmatism failed him. Within Microsoft, they feared Bill for his relentless intellect, his grasp of detail and his brutal intolerance of anyone whom he thought "dumb". But the legal system doesn't do fear, and in a filmed deposition, when Microsoft was had up for being anti-competitive, the hectoring, irascible Mr Gates, rocking slightly in his chair, came across as spoilt and arrogant. It was a rare public airing of the sense of brainy entitlement that emboldened Mr Gates to get the world to yield to his will. On those rare occasions when Microsoft's fortunes depended upon Mr Gates yielding to the world instead, the pragmatic circuit-breaker would kick in. In the antitrust case it did not, and, as this newspaper argued at the time, he was lucky that it did not lead to the break-up of his company.

Inevitability and temperament are two hallmarks of Gates the innovator. The third is the transience of all pioneers. The argument was brilliantly laid out by Clayton Christensen, of Harvard Business School. The perfecting of a technology by a well managed company catering to its best customers leaves it vulnerable to "disruption" by a cheaper, scrappier alternative that is good enough for everyone else. That could be a description of Microsoft's Office, which now does more than almost anybody could wish for—even as Google and others are offering free basic word-processors and spreadsheets online.

Mr Gates was haunted by Mr Christensen's insight—he even asked for his help to keep back the tide. Microsoft successfully extended Windows as an operating system for servers; it has moved into new areas, such as mobile devices and video games; and it has lavished billions of dollars on all sorts of research—without much to show for it. Despite all those efforts, the PC, Mr Gates's obsession, has ended up as an internet terminal. The company still has everything to prove online (see article). Watching Microsoft in the company of Google and Facebook is a bit like watching your dad trying to be cool.

Business is good for you

Mr Gates had the good fortune to be perfectly suited for his time—but he is less well-equipped for the collaborative and fragmented era of internet computing. This does not diminish his achievement. Nor, as some would have it, does his philanthropy necessarily magnify it. Whatever the corporate-social-responsibility gurus say, business is a force for good in itself: its most useful contribution to society is making profits and products. Philanthropy no more canonises the good businessman than it exculpates the bad. In spite of his flaws, Mr Gates is one of the good kind. Some great industrialists, like Henry Ford, stick around even as the world moves on and their powers fail. Mr Gates, pragmatic to the end, is leaving at the top.

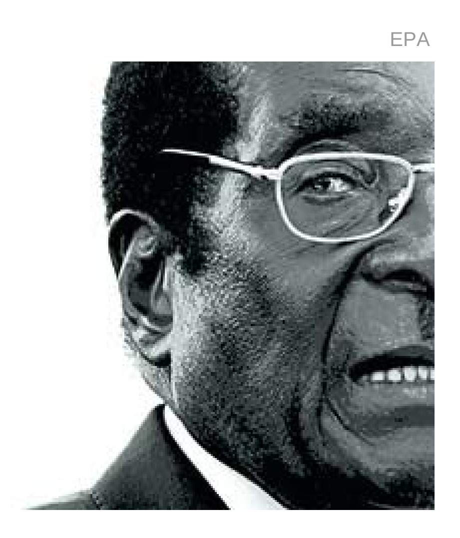
Zimbabwe

How to get him out

Jun 26th 2008
From The Economist print edition

By forcing the opposition to abandon the election, Robert Mugabe has undermined his position

EPA



IT IS hard to believe that the horrors inflicted by Zimbabwe's ruler on his own people could get worse. But even in the past week they have. The burning to death of a six-year-old boy because his father is an opposition politician, and the butchering of the young wife of the capital's new opposition mayor, are part of a growing wave of violence that has persuaded Morgan Tsvangirai, the opposition leader, to withdraw from the presidential run-off that was due on June 27th. He rightly felt that, by standing in the election, he was risking the lives of too many thousands of his supporters.

Yet Robert Mugabe's crimes are finally coming home to roost. He will claim to be re-elected president, by default. But he has lost one of the big things that have kept him in power to date: the grudging support of Africa. His brutality and fraudulence have become so plain for all to see that neighbours who once defended him are changing their tune. Just as he is poised to declare himself the winner, almost the entire continent—not to mention the rest of the world—has come to believe that he cannot be allowed to stay in office (see article).

He is, as a result, weaker; but he and his thugs are determined to hang on. He has the tyrant's delusion that "only God", as he puts it, can displace him. So Western and African countries, especially Zimbabwe's neighbours, must act in concert to get rid of the ogre that has shamed an entire continent.

How to finish him off

The first and easiest act is to refuse to recognise any administration led by Mr Mugabe. The European Union, the United States and much of the rich world will ostracise him. Now is the time for Africa, especially the influential regional club of 14 countries known as the Southern African Development Community (SADC), to follow suit. A swelling chorus of other African leaders has condemned the election as unfair. Even South Africa, whose spineless president, Thabo Mbeki, is still refusing to criticise Mr Mugabe outright, has begun to turn against him. Its likely next president, Jacob Zuma, is increasingly exasperated. Its trade unions have called for a blockade of Zimbabwe, symbolic at first but perhaps a harbinger of pressure to come. Nelson Mandela, South Africa's beacon of decency, in London this week to celebrate his 90th birthday, spoke out against the "tragic failure of leadership in our neighbouring Zimbabwe".

South Africa remains the key. Its leaders have long had the power to bring Mr Mugabe to his knees, just as their white predecessors squeezed the life out of Rhodesia's white-supremacist leader, Ian Smith,

three decades ago, letting Mr Mugabe take over when Rhodesia became Zimbabwe. Mr Mbeki will argue that economic strangulation would hurt the hapless Zimbabwean masses more than the pampered elite around Mr Mugabe. In the short run, he is right. Humanitarian aid must continue to flow into Zimbabwe, though Mr Mugabe has made it hard—often impossible—for charitable outfits to ensure that their largesse goes directly to the right poor people. But South Africa, along with other countries in the SADC, should certainly join in imposing the targeted sanctions already enforced by the EU, the Americans and other governments against Mr Mugabe and 130-odd of his closest comrades, who are banned from visiting the penalising countries and have had their assets there frozen. Depriving Mr Mugabe's cronies of trips to a decent country that works could have a salutary effect.

The African Union (AU), which embraces all 53 of Africa's countries, should also be far more robustly involved. Unlike the SADC, which is often paralysed by its search for consensus, the AU's rules provide for decisions, specifically including the imposition of sanctions on errant members, to be taken by a two-thirds majority. The union is holding its annual summit next week, in Egypt. It should call on its members not to recognise Mr Mugabe as president or his party as the government.

The United Nations, too, must be ready to help. South Africa has been disgracefully blocking discussion of Zimbabwe in the 15-strong Security Council, of which it is a current member (see article). But this week it was shamed into signing a unanimous statement deploring the Zimbabwean government's violence. There have been calls for the UN to send peacekeepers and to oversee fresh elections: a nice idea that will not come to pass any time soon. At present, no such resolution in the Security Council would get the necessary support, especially from Russia and China (not to mention South Africa). Moreover, while the loss of life in such blighted places as Sudan's Darfur province and Somalia is still many times higher than in Zimbabwe, the UN has proved unable to send anything like an adequate force to those places; getting the Security Council, and in particular China, to take action over Darfur was like pulling teeth. Yet there is every reason to start campaigning for the UN to take up the cause of Zimbabwe too. It should certainly help to manage a fresh election.

Why not send in the troops?

Some romantic spirits ask why Mr Mugabe cannot be ousted by force—by Western powers, if not the UN. It would be glorious if he were removed by any method at all. But it remains unthinkable for such an action to be taken without the co-operation—logistical, among other things—of the region's leaders. Persuading them to collaborate in isolating Mr Mugabe is hard enough. Deploying an international force should not be ruled out in the future, especially if the violence spreads. But other methods, with Africans to the fore, must be tried first.

In any event, the rich world should spell out a generous and co-ordinated recovery plan to be acted on as soon as Mr Mugabe has gone and proper elections held that would presumably bring Mr Tsvangirai to power. Zimbabwe needs at least $10 billion to put it on the path to recovery. Yet it is a resource-rich country with a core of well-educated people, millions of whom have fled abroad and must be wooed back home. Mr Mugabe may cling to power for a while, but his grip is weaker. Zimbabwe needs help from the West. But most of all it needs its African neighbours to tell the tyrant unambiguously to go—and to snuff him out if he refuses. It can be done.

Israel and Iran

It’s later than you think

Jun 26th 2008
From The Economist print edition

Israel is threatening to attack Iran’s nuclear sites. This may not be a bluff



WITH oil prices at their present highs and Iraq at last making tentative progress towards stability, the last thing anyone wants to hear is that conditions in the Middle East could be about to take an abrupt turn for the worse. Unfortunately, they could. Recent weeks have brought a spike in chatter about the prospect of an Israeli military strike on Iran’s nuclear installations. Israel has conducted ostentatious long-range air exercises over the Mediterranean, and one former chief of staff has called an attack inevitable if Iran continues its nuclear work. This noise might be just a bluff designed to signal to Iran that it would be wise to stop enriching uranium, as the United Nations Security Council ordered it to a full two years ago. Then again, it might not.

Until recently, fears of an Israeli or American attack on Iran had been receding. The prospect of an American strike diminished after America’s intelligence services published their inconvenient finding last December that Iran had stopped trying to design a nuclear weapon in 2003. At the same time, diplomats have been able to point to the sort of progress diplomats point to: a series of Security Council resolutions, supported by Russia and China as well as the West, telling Iran to stop its uranium-enriching centrifuges. Sanctions have been applied as well: in the latest, the European Union decided this week to freeze the assets of Iran’s biggest bank, Bank Melli. Slowly but surely, you might conclude, the normal tools of diplomacy are being brought to bear, removing the need for anything worse. Besides, in November Americans may elect Barack Obama as president. Doesn’t he promise to sort out Iran by means of direct talks at the highest level, a necessary step that George Bush could never quite bring himself to take?

If those were your reasons for ceasing to worry, think again. Despite that American intelligence finding, neither Israel nor many other governments believe that Iran has given up its interest in nuclear weapons. Yes, the UN has passed resolutions and imposed some mild sanctions, but Iran has spent two years disregarding them, continuing to spin its centrifuges and to call for the destruction of Israel. It may well be true that Mr Bush is disinclined to bomb Iran now that he is a lame duck, but the possible advent of a President Obama might just make Israel more inclined to do so itself. As the hawkish John Bolton, a former Bush administration official, said this week, Israel may think the best time to attack would be during America’s presidential transition—too late to be accused of influencing the election and before needing a new president’s green light.

Don’t do it

Such an attack would be a mistake. Even if it did not turn the region into a “fireball”, as Mohamed ElBaradei, head of the International Atomic Energy Agency, the world’s nuclear watchdog, has predicted, it would certainly provoke retaliation. Given Iran’s size and sophistication, it would at best delay rather than end whatever plans the Iranians have to become a nuclear military power. Even if Iran did get the bomb, it would probably not use it for fear of Israel’s bigger, existing stockpile. And in the (admittedly improbable) event that Iran is telling the truth when it denies having any such ambition, nothing would change its mind faster than an Israeli strike.

The trouble is, this logic looks different from Tel Aviv. Given their history, a lot of Israelis will run almost any risk to prevent a state that calls repeatedly for their own state’s destruction from acquiring the wherewithal to bring that end about. Till now, the world has talked a lot and applied some modest sanctions to stop Iran’s dash to enrich uranium. It is time to apply much tougher ones, in the hope that it is not already too late.

Inflation

The importance of being in earnest

Jun 26th 2008
From The Economist print edition

The Fed and the Bank of England are likely to have to raise rates to retain their credibility



WHAT are central banks in rich countries to do? Inflation is on the march again on both sides of the Atlantic. That argues for raising interest rates. At the same time, because of the credit and housing crisis, America is close to a recession and other economies look set for a fall. That argues for sitting tight.

Faced with this dilemma, central bankers are divided. The European Central Bank (ECB) seems intent on raising rates. It is expected to do so in early July. The Federal Reserve is still spooked by recession. It kept interest rates unchanged this week, as did the Bank of England earlier in June. So who has got it right?

On the face of it there is much to be said for the Fed's and the Bank's approach. The inflationary shock is largely confined to the surging prices of oil and food. It is a relative-price effect rather than a rise in prices across the board. Core inflation, which strips out food and energy, remains tame in both Britain and America. Provided that commodity prices stabilise—something that seems overdue after the recent increases—the surge in headline inflation should be temporary.

The main danger is that the commodity-price shock feeds through to domestic-price pressures, turning a temporary surge into a persistent jump in inflation. But this risk will be tempered by the slowdown already afflicting the American economy and heading across the Atlantic.

The combination of rising inflation and slowing growth may bear a worrying resemblance to the stagflationary 1970s, but there has been a sea-change in advanced economies since then. Product markets are more competitive and labour markets more flexible. This makes a repeat of ruinous wage-price spirals much less likely.

Show that you mean it

Another difference from the 1970s is that the epicentre of the inflationary shock lies in the developing world. Although supply constraints have contributed to the rise in commodity prices, a crucial reason has been the relentless increase in demand for oil and resources from countries like China. Global monetary conditions are too lax, but the central banks that need to respond most urgently are in emerging economies.

Yet there are risks in sitting tight. The big worry is that both the Fed and the Bank may lose their hard-won authority as doughty fighters against inflation, with the result that people expect inflation to rise further. Rising inflation expectations are bad news. When people think that inflation will stay low, price-setters and wage-negotiators act accordingly, creating a virtuous circle. Once they expect higher inflation, firms will anticipate it by trying to pass cost increases on and wage negotiators will push for higher wage deals, creating the potential for a vicious circle even in today's better-behaving economies.

The worry is that inflation expectations already seem to be rising. A survey of American consumers shows that their median expectation of inflation over the next five to ten years has reached its highest since 1995 (see article). In Britain the public's year-ahead view has jumped to its highest since the central bank started the survey in 1999.

There is no cast-iron link leading from inflation expectations to a persistent rise in inflation. But the lesson of previous monetary mistakes is that it is less costly to prevent inflation from escaping than to

recapture it. The ECB’s plan for a rate rise in July is designed to show that it means business. Unless financial markets or growth prospects take a further turn for the worse, the Fed and the Bank will need to do the same before long. Otherwise they will lose the credibility that is a central bank’s most valuable asset.

Microfinance

Doing good by doing very nicely indeed

Jun 26th 2008
From The Economist print edition

In support of profiting from the poor

Illustration by David Simonds



FOR years Muhammad Yunus reigned as the public face of microfinance. It seemed only right when, in 2006, the Bangladeshi economist cum social entrepreneur and his Grameen Bank shared the Nobel peace prize for a micro-lending revolution that has helped millions to earn their own way out of poverty. Yet for the past year or so, microfinance has had another public face, one that troubles people like Mr Yunus. CompartamosBanco argues that the best way for microfinance to help the poor is for it to make a socking great profit.

Since Compartamos listed its shares for over $1 billion in April 2007, it has stirred up an increasingly fierce debate. To Mr Yunus and its other critics, the Mexican bank is no better than an old-fashioned loan shark, earning its huge profits by charging poor borrowers a usurious interest rate of at least 79% a year. Perhaps sensing opinion turning against it, the bank has belatedly sprung to its own defence, issuing a defiant justification of its business in an 11-page "letter to our peers". And it manages to make a convincing case for its strategy of fighting poverty with profits.

Shares and sharing out

Compartamos was born out of the same social concern that inspired Mr Yunus. It uses a similar group-lending model to Grameen's. It says its mission has not changed, but it has become convinced that by pursuing profits it will be able to provide financial services to many more poor people far more quickly than it would if it had continued to act as a charity.

Microfinance, especially lending to microentrepreneurs with no collateral, is labour-intensive and costly—in Compartamos's case, around $152 a year per client, with an average loan of $450. By charging an interest rate that generates a profit, the bank can grow fast and provide many more "micro-entrepreneurs" with the finance they need, even at interest rates that by the standards of rich countries seem unacceptably high. The bank now has over 900,000 clients, and expects to reach over 1m this year, up from the 61,000 it had in 2000, after a decade as a traditional non-profit outfit. None of these new borrowers was compelled to come to its doors.

Compartamos also argues that its profits will build a microfinance industry. The more it earns, the more attractive microfinance will seem to investors, and the more capital will flow in. And the evidence supports this apparently self-serving claim: since Compartamos started to pursue profit, seven new regulated microfinance providers have begun to compete with it in Mexico, many of them financed by

profit-seeking capitalists. Greater scale and competition are driving down interest rates—in Compartamos's case, from 115% seven years ago. Even Mr Yunus has recently started to make the case for a more self-sustaining "social business" model, though his "non-loss, non-dividend company" is hardly as hungry as Compartamos.

Profiting from the poor can be wrong, when lending is predatory—when the lender expects that the borrower will be unable to pay the interest or repay the principal. Compartamos does not target the poorest of the poor: it argues they would be better served by benefits such as income support from the state. It reports low default rates and high customer satisfaction. As for exploiting the ignorance of some borrowers, Compartamos says it is committed to transparency on interest rates and other charges. Since going public, it has offered financial literacy courses—some 60,000 of its clients went on one last year. If only those rich-country banks which touted subprime mortgages to the poor had been as public-spirited.

On civil liberties, innovation, pensions, credit derivatives, politics, mosquito nets, tax, Volkswagen, the Netherlands, driving, Iraq, beer

Jun 26th 2008
From The Economist print edition

A politician responds

SIR – You suggested that the British people support liberty in the abstract, but that their "resolve wilts... when specific security gains are promised" ("Mary Poppins and Magna Carta", June 21st). In fact, it depends on how you frame the question. One question put to respondents in your poll, conducted by YouGov, assumed that "CCTV cameras help to deter criminal behaviour", even though police reports show that 80% of CCTV footage cannot be used.

You also contended that the police are relying ever more heavily on DNA to solve crimes. Yet the percentage of crimes detected using DNA has remained below 0.4% despite 1m innocent citizens having been swabbed since 2002. Moreover, the argument that identity cards will make it easier to keep track of terrorists ignores the fact that ID cards did not stop the September 11th bombers based in Germany, nor the terrorist attacks on Madrid and Istanbul.

It is said that the government's proposal to detain terrorist suspects without charge for 42 days is popular. But another YouGov poll found that 70% would prefer to keep the current 28-day limit if the police were allowed to use post-charge questioning.

The government presents these issues as Faustian trade-offs between security and liberty. The reality is that draconian measures rarely make us safer and often jeopardise security. That is not a trade-off. It is a con, which is why we need an informed national debate that goes to the heart of our liberal democracy.

David Davis
Haltemprice and Howden, East Riding of Yorkshire

Funding new inventions

SIR – Referring to the conclusions of a RAND report on research and development in science and technology, you claimed that fears that America is losing its competitive edge in innovation are "overblown" ("What crisis?", June 14th). Your evidence is that "America has lots of sources of R&D spending: federal money accounted for only $86 billion of the $288 billion it spent on R&D in 2004" and that "spending on the life sciences is increasing rapidly, a reasonable bet on the future." The important point to be made here is that the composition of American R&D has changed markedly over the years.

Federal support for basic research at universities in the physical sciences and engineering—the type of research most directly coupled to technological innovation—has withered relative to spending on research in the life sciences and R&D carried out by industry. The increase in privately financed product-development (often the D in R&D) and biomedical research are both good, but neglecting basic research investments of the type that gave us the internet, solid-state electronics and medical imaging is not a recipe for future success.

Given that it typically takes 15 years for new ideas dreamed up in the laboratory to become commercial, America may be losing the technology race even while seeming to remain on top. At the very least, America's relative position in the world is slipping, which bodes ill for the future economic standing of the United States.

George Scalise
President
Semiconductor Industry Association
San Jose, California

Pension pitfalls

SIR – Regarding your briefing on pensions, I must admit that I was an ardent proponent of the switch from defined-benefit to defined-contribution schemes some 20 years ago when I worked in a consulting firm in Canada ("Falling short", June 14th). But, now that I am looking down the barrel of my 64th birthday, I see that my employer benefited too much. We also underestimated the difficulty of persuading people about the merits of planning for such a distant event as retirement when they have to deal with such pressing issues as a mortgage, rent or college fees.

Gordon Divitt
Mississauga, Canada

Financial instruments

SIR – John Hawkins accuses you of perpetuating a "myth" that derivatives can amplify a credit crisis (Letters, June 14th). But you were right; they can. It is true that one person's loss is another's gain, but there is no mechanism to ensure that the gainers will invest to match disinvestments by those who lose. The gainers may bide their time or, in other words, hoard their winnings.

In times of economic crisis this may be both rational and likely. Firstly, behaviour may be asymmetric. Secondly, behaviour is driven by expectations, psychology and herd effects. This was one of Keynes's observations, which led him to give warning of the economic damage that can be done by unfettered financial markets. Distributional changes can and do affect the real economy. The economic damage that unregulated markets in derivatives and other financial innovations can wreak by amplifying a credit crisis is no myth.

Jonathan Michie
President
Kellogg College
Oxford

Transatlantic differences

SIR – It is always odd to hear Europeans fuss that George Bush is the reason for the deterioration of America's image abroad (Lexington, June 14th). Have they forgotten the Reagan years? I lived in London during his presidency and they couldn't stand Reagan, for all that they idolise him now he's dead. I remember the venomous reaction to his decision to bomb Libya. The anti-American bias in most of the media was very blatant; the Conservatives even launched an inquiry into the fairness of the BBC's reporting.

Maggie McGirr
Greenwich, Connecticut

SIR – Lexington averred that most Americans feel that tackling climate change is "a great idea so long as it involves all gain and no pain". Although this is the current conventional wisdom, it may well be unwarranted. The Nature Conservancy commissioned a pair of polls recently in Oregon and New Hampshire, two states that have strong strains of both environmentalism and conservatism in their politics. The polls, conducted by a respected Republican pollster, Public Opinion Strategies, found that five out of six people in both states agreed with the statement: "I understand that reducing global warming will take sacrifices from all of us, and I am ready to make some changes."

Half of those polled indicated they were willing to pay $25 a month or more in higher household energy costs to reduce emissions from power plants that contribute to global warming. If the next president puts serious legislative action to address climate change at the top of his political agenda he may find that Americans are ready to follow his leadership.

Eric Haxthausen
Senior policy adviser
The Nature Conservancy

Arlington, Virginia

The net result

SIR – You used the example of mosquito nets to highlight what both proponents and detractors agree is a challenge to “randomised evaluations” (different policies that are tested by randomly assigning them to different groups). It is clearly very hard to draw general policy conclusions about public health from just one finding—in this case that charging a small fee for a mosquito net in Kenyan antenatal clinics reduces their take up (Economics focus, June 14th). You suggest that this forces us back into the world of intuition and guesswork. However, there is another possible approach: rather than trying to generalise from one such evaluation, make use of several, and use these not just to evaluate specific policies but also to build theories.

The standard practice among many development organisations has been to charge at least something for health products, based in part on the idea that consumers will not value or use products that are free. In a recent paper Alaka Holla and I summarised the results of 16 randomised evaluations examining health and education pricing in the developing world. Across a range of diverse policies we found that imposing even small costs leads to dramatic reductions in take-up, including the provision of mosquito nets as well as in less familiar technologies like deworming medication.

Based on the accumulation of evidence, Population Services International, perhaps the leading provider of mosquito nets, is now moving to provide them free to antenatal clinics in Kenya. This is a clear shift to evidence-based policy. And given that PSI targets the young children and pregnant women who account for the overwhelming majority of malaria deaths, it is likely to save many lives.

Michael Kremer
Professor of developing societies
Harvard University
Cambridge, Massachusetts

Tax disincentives

SIR – The new bill you mentioned that adds to the tax burden of already heavily taxed expatriate Americans also applies to permanent residents who have had their green card for at least seven years (“America’s Berlin Wall”, June 14th). The unfortunate aspect of including green-card holders in the new law is that the immigration and citizenship service can revoke a green card for the simple act of not spending enough time in the United States.

Thus, for example, someone who wishes to return home for a few years to care for an elderly parent, or someone who is asked to temporarily manage an office abroad, now faces the very real threat that while doing so they will lose their green card and be forced to pay the exit tax. This law will reduce immigration to America of wealthy people, entrepreneurs and capitalists, who are exactly the kind of people America wants.

Liz Zitzow
Managing director
British American Tax
London

Vintage VW vehicles

SIR – Although it is widely assumed that “Ferdinand Porsche designed the first VW” for Hitler in 1934, Porsche actually took the design from the Tatra T97 of Czechoslovakia’s Hans and Erich Ledwinka (“See you in court”, June 14th). Porsche, who met the Ledwinkas on several occasions, never denied the connection. In the late 1930s Tatra tried to sue for a number of patent infringements, but Hitler’s invasion of Czechoslovakia stopped that. Tatra succeeded in suing Volkswagen in the 1960s. During the communist era Tatra built luxury cars of a similar design and layout, some of which are still on the road today.

Robert Baty
Seer Green, Buckinghamshire

Liberal persuasions

SIR – I attended the recent conference on Islam in Kuala Lumpur and can confirm that the Dutch preference for pre-empting religious flare-ups was well expounded not only by a Dutch lawyer, Famile Fatma Arslan, whom you mentioned, but also by an adviser to the Dutch foreign ministry ("When religions talk", June 14th).

While groups like the Organisation of the Islamic Conference prefer legal methods to limit "defamation of religion", the Dutch approach leans less on law and more on an astute use of early-warning mechanisms to avoid social tensions, which could have exploded as a result of "Fitna", a film about Islam made by a Dutch member of parliament.

The Dutch method puts a priority on moral pressure against extremism from any quarter, and less emphasis on legal enforcement. By refusing to stoke a fire from which hotheads would benefit, the moral high ground was held in this case.

The fact is that using the law to stop all extremists engaging in inflammatory incitements is impractical, if not impossible. Going Dutch is the better way, as many of the Netherlands' neighbours in an increasingly diverse European Union should realise.

Michael Shank
Institute for Conflict Analysis and Resolution
George Mason University
Arlington, Virginia

Going into overdrive

SIR – Us "hardcore stick-shifters" would like to point out that although the Ferrari 612 Scaglietti may have a ferociously effective automated transmission, this misses the point ("Changing gears", June 7th). Driving a manual car is fun. The joy of making a particularly smooth and quick double-clutched downshift is something that cannot be experienced in a semi-auto. Plus, what happens to motoring safety once everything is automated and absolutely no skills are required of would-be motorists? And what will happen when the hyper-complex electronics fail? I can only imagine how a DualTronic Direct Shift Gearbox will perform after 10 years of abuse from drivers.

Magnus Westergren
New York

Plucking for peace

SIR – I am a musician by profession and it was profoundly gratifying to see that, of all the possible images you could have chosen for your cover on progress in Iraq, you went for a photo of an Iraqi luthier fixing an oud, the Arabic ancestor of all Western lutes (June 14th). I exhort each and every one of your readers to take up the oud, or at least buy one from an Iraqi luthier. All political disagreements notwithstanding, the one thing the people of Iraq will need most critically in the years to come is a clientele, and not only in the oil trade.

Victor Kioulaphides
New York

Beer of choice

SIR – As a Belgian who has lived for more than 30 years in America, I can barely repress a little smile at InBev's offer to acquire the brewing company that makes Budweiser, a quintessential American icon

("Hands off our Bud", June 14th). It is nice to know that the beer that Americans love to sip after a hard day's work will be owned by the same small country that gave the world delicate lace, artisanal little chocolates and sautéed Brussels sprouts. And seeing as InBev has also acquired numerous Belgian microbreweries, at long last Americans will have easy access to beers with personality, character and, lo and behold, flavour. Now that is something to welcome, not to fear.

Benoit Jadoul
New York

SIR – As long-time drinkers of Budweiser my friends and I take issue with your description of us as "Joe Couchpotato". The proper connotation is Joe Sixpack. You're insinuating that Budweiser drinkers sit on the couch to drink beer. Actually, we enjoy having a few ice-cold Budweisers during and after playing softball, volleyball, golf and fishing during the hot summer months. Yes, a number of my European friends consider Budweiser to be "a glass of water spoiled", but they too enjoy a Budweiser on a scorching hot day. Preferences for beer are determined not only by taste, but by the weather. I enjoy a Guinness on a chilly spring day, every March 17th.

Tim O'Keefe
Long Branch, New Jersey

Migration

A turning tide?

Jun 26th 2008 | NOGALES
From The Economist print edition

New York Times/Redux/Eyevine



Many of the past decade's migrants to Europe and America are beginning to go home again

A SHARP-EYED coyote, dollars sprouting from his ears, glowers at the roadside. Beside him a muscle-bound American border agent, clad in green and with pistol drawn, looms over a cowering migrant. Nearby a man-sized dollar sign flits away on silver wings. That graffito on a concrete border wall in Nogales, on the Mexican side of the frontier with the United States, tells a simple story: the business of migration in this part of the world is both lucrative and increasingly dangerous.

Residents of Nogales advise visitors to avoid "Buenos Aires", a hillside quarter controlled by violent gangs, where smugglers corral their human cargo in safe houses. At dusk the migrants sneak across a dry river bed and through scrubland for the hazardous trip into Arizona. They are increasingly likely to carry arms or drugs. A resident grumbles that there are more desperate types around. "They will take your socks when they steal your shoes."

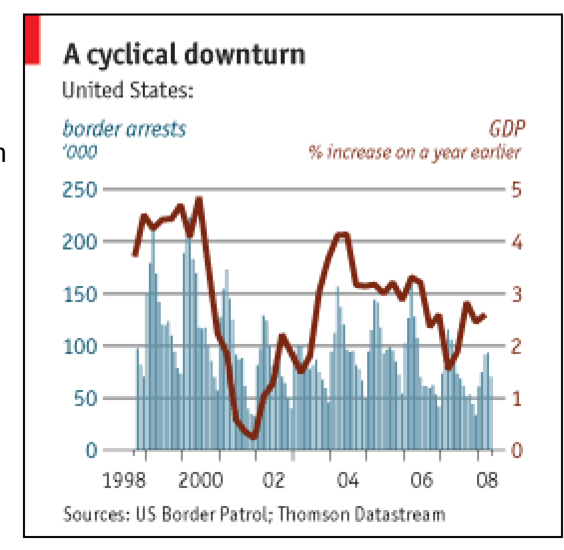
The smugglers may feel increasingly bad-tempered, too. For years a flow of migrants has waxed when the American economy is in rude health, waning only slightly during recessions; it flows north in the spring when agricultural and construction jobs need filling and goes south for Christmas. Where illicit traffic has been heaviest, the migrants' many footfalls have worn narrow, winding paths into the rocks. But now a big change is visible: the flow of migrants from Latin America to the United States appears to be slumping.

For the third successive year, America's Border Patrol reports a sharp drop in arrests on and near the frontier. In 2006 the figure dropped 8% to around 1m. Last year it dropped by a full fifth. The six months to March showed a year-on-year drop of 17%. In short (and by the imperfect measure of border arrests) the migrant flow today is roughly half the torrent seen in 2000, when 1.64m arrests were made.

Such figures miss those who cross successfully and recount those detained several times, but they show a clear trend. So does evidence from remittances. Mexico's central bank reports that, after years of eye-popping growth, the amount of cash sent home by migrants inside America is falling. Last year such flows were worth $24 billion—more valuable than tourism. But in the first quarter of this year the year-on-year figure was down 2.9%, according to a new report by Goldman Sachs.

Better scrutiny of flows across borders after 2001 probably

exaggerated the real rate of growth, so it was bound to taper eventually. But even with that in mind, it is clear that migrants really are sending less money home. A poll of migrants across America published by the Inter-American Development Bank in April confirmed that fewer are sending money back regularly: in 2006 three-quarters of migrants did, this year only half report doing so. Nor is it only Mexico; Brazil, the second-largest recipient of remittances in the region, saw them slide by 4% last year, to $7.1 billion.



Two factors, each as ugly as the other, probably explain the double downturn in flows of people and money: hostility to migrants, especially illegal ones, and America's deepening economic gloom. The impact of the former is plain: state-level laws that make it illegal to employ migrants without documents, ever more aggressive raids on businesses that hire such workers, and better technology to share information that will lead to catching them.

High spending on border defences is the most visible example. The Department of Homeland Security is budgeting $12 billion in the next fiscal year to guard the frontier against job-seekers (and the odd mythical terrorist walking to his target). The idea is to use more drones, helicopters, hi-tech sensors and cameras, 20,000 agents (on horseback, in jeeps, on bicycles and on foot) and of course the big metal fence that unfurls along several hundred kilometres of dustblown territory. All this discourages foreigners, as did the failure last year of the Senate to pass an immigration-reform bill.

No surprise, then, that polls show migrants feel less welcome and more worried by xenophobia. Many fear deportation and picking up a criminal record. Those who would once have been sent back now risk jail. As the border gets harder to cross, migrants are pushed further into the hands of smugglers and the natural hazards of the desert.

Hostility and fences would matter less if the economic draw remained strong. Instead America's economy appears to be in the dumps, even if it avoids a recession. Jobs figures in May showed unemployment had risen to 5.5%. The slump in housing and construction—where many migrants, especially newer arrivals, work—has been especially painful. The Pew Hispanic Centre published a study in June showing a 7.5% jobless rate among immigrants, rising to 8.4% among Mexicans and to 9.3% for those who came to the country after 2000. Over 220,000 migrants lost construction jobs last year. And those in work are earning less: wages of Latino construction workers tumbled in 2007.

Beyond America

That trend is part of a bigger picture. Many places, including Australia, the Persian Gulf, parts of Asia and much of Africa will no doubt see migration continue apace for some time yet. Where economic growth remains strong, as in most emerging markets, migrant workers will be drawn in, just as they will keep on surging out of dirt-poor places with more people than jobs. Even in South Africa, where anti-migrant riots have sent tens of thousands of foreigners fleeing into camps (or back home to Mozambique, Zimbabwe and elsewhere) and have led to dozens of deaths, migration is likely to stay high.

But where recent economic booms had been strongest, and where the inflow of migrants had reached record highs, the prospects for a sharp decline are clear. This is particularly the case in western Europe. Ireland and Spain, both historically countries of emigration, have seen massive arrivals of foreigners in the past decade. Romanians, in particular, flocked to man Spain's building boom; Poles and Lithuanians went to Ireland. Britain has drawn an exceptionally large number of migrants from Europe's east, especially Poland; Greece attracted Albanians; Italy drew in Romanians and others. The rush of people on the move went hand-in-hand with the expansion of low-cost travel in Europe, especially by air.

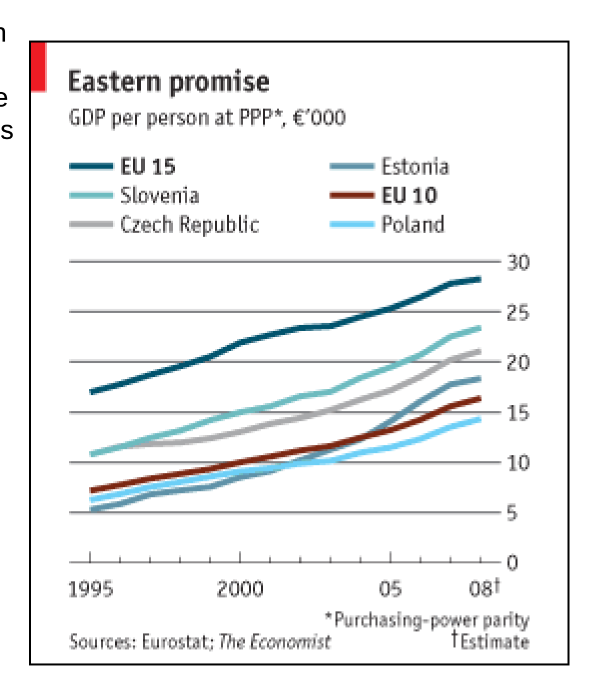
Now some of these flows are slowing, even reversing. A study by the Institute for Public Policy Research (IPPR), a British think-tank, this year noted that of the 1m or so East Europeans who came to Britain since 2004, around half have already left—some for better economic prospects back home, others because they intended to stay only to learn English or to work temporarily, or because they wish to return to their families. The inflow of migrants to Britain from this region has also dropped sharply, by 17% last year. Danny Sriskandarajah of the IPPR concludes that "After one of the most intense periods of

migration there has to be a natural end. The dominoes are starting to fall."

Mr Sriskandarajah believes that what is true for Britain probably holds in much of continental Europe, too. In part, the factors in Europe match those in America: more hostility to migrants, including tougher policing, and an economic downturn in many recipient countries.

Greater hostility comes in various forms. As with America's border fence, the European Union border operations, known as Frontex, boast of more success in turning back (or at least displacing) flows of would-be illegal migrants from north Africa. Nicolas Sarkozy is planning more pan-European co-operation to deter unregulated migration: in July, when France takes over the EU presidency, he will push for closer collaboration on this, for example with better sharing of information on migrants across borders.

National initiatives are also making life tougher for migrants. In Britain officials hunting for illegal workers have stepped up raids of factories, farms, restaurants and other workplaces. The names of those who run companies that employ illegal migrants will now be published on official websites, to "shame" those involved in the practice. In Italy Silvio Berlusconi fought his way back into office in April allied to the anti-immigrant Northern League and promising a crackdown on clandestine migrants. The first meeting of his new cabinet, on May 21st, approved a string of measures that made unauthorised entry into Italy a crime, introduced discriminatory sentencing for illegal aliens and imposed draconian penalties on Italians who provide accommodation to migrants without papers. The package also made it easier to expel EU citizens—a measure aimed at the 50,000 or so Romanian Gypsies, who are widely and sometimes unfairly blamed for a large share of crime in Italy. Similar rules have been imposed in other European countries.



Zloties and pounds

As economies slow, too, their attraction for migrants drops. Ireland and Spain are especially vulnerable to a painful downturn: in both countries construction and housing-related employment made up 13% of all private-sector jobs at the end of last year. As in America, these sectors, which have both seen a slump, are heavy employers of migrants. In Spain some 100,000 migrants were pushed out of their jobs in the year to May: migrants accounted for half of those who joined the Spanish unemployment register in that time. Although the country has not seen any Italian-style xenophobia, the government is now trying to persuade some 20,000 migrants to go home for at least three years, by offering lump-sum advances of unemployment benefits. Spanish officials are also looking for ways to restrict the number of relatives of migrants arriving in the country.

Beyond the euro zone there are also currency worries. In Britain the economy is slowing, and the sharp drop in the value of the pound has cut the attraction of the country to foreign workers. Every pound a Pole sent home in May 2004 earned him seven zloties; today he gets little more than four. Similarly, as the value of the dollar has tumbled, the attractions of moving to America to work have declined.

Some worry about a huge new wave of migration when Romania and Bulgaria at last get full membership and freedom of access within the European Union. But in fact people from these countries have already been working abroad in large numbers. Demetrios Papademetriou, head of the Migration Policy Institute (MPI) in Washington, DC, and a close observer of people movement in Europe, concludes that "Most of what will happen, has happened. We won't see big new movements. The migration shock has ended."

Nor is this only about illegal or low-skilled migrants. For the best educated ones, too, the attractions of working in Britain, for example, may be sliding, with the outflow of foreigners boosting emigration. Mr Sriskandarajah points to new research by the IPPR showing that a fifth of migrants from Britain to America, and nearly a tenth of those to Australia, are not British citizens. He adds that the country is finding it hard to keep foreign-born graduates who study in the country. In 2006 35% of EU graduates of British universities left for jobs abroad; just 25% of them stayed on in Britain to work. And three-quarters of all doctors who deregistered in Britain last year were foreign-born.

And supply, too

The global supply of migrants is not running short. Although rich-country labour forces are now at their peak (in Europe they will now decline for the foreseeable future) the worldwide labour force continues to grow rapidly; today's stock of 200m migrants may easily become 300m in a few decades. But big migrant flows are mostly between nearby countries.

For America there is little prospect that the supply of workers from south of the border will dry up; Latin America remains relatively poor and young. In contrast, for western Europe, the supply of well-educated people from the east may now sputter as the immediate neighbours become the sort of middle-income and relatively elderly countries that need to import workers, not export them. Rates of migration westwards from the new members of the EU, in 2004 and since, far exceeded the expectations of most experts and officials. But the high rates need not continue, and may reverse. East European economies have grown relatively fast in recent years, their labour forces are shrinking fast (partly because of emigration, partly because of ageing populations) and unemployment has dropped quickly in the past half-decade. All this makes it more tempting to stay (or return) home.

Two Polish academics, Pawel Kaczmarczyk and Marek Okolski, have studied demographic changes in the region with a particular emphasis on migration. They note that remittances from migrants in western Europe have risen fast (although they are probably not responsible for more than a small share of the growth in the east). They also point out that wages are rising fast in the Baltic states—by an average of 9% a year in the three countries recently—and elsewhere. And in some sectors, such as the construction industry in Poland, a shortage of workers is becoming acute. Romania's government, in January, started a recruitment drive in Italy for (Romanian) construction workers to return home to fill vacancies there.

Previous migration movements, such as that from southern to northern Europe, suggest that countries stop sending large numbers of migrants once they get to a certain level of wealth. Kathleen Newland, also of MPI, suggests that "based on the experience of countries like Spain, Portugal, Greece and South Korea, emigration usually slows when income per person approaches a threshold level in relation to income in the richer countries where the migrants are heading." The tipping point, she says, is when the ratio of incomes reaches about 1:4 or 1:5, especially if the upward trend seems stable. "For migrants looking to go to western Europe and North America, this would imply a threshold level of $6,000-7,000." Once average incomes pass this point, migration flows are most likely to tail off.

The richest country in eastern Europe, Slovenia, produced few migrants after its accession to the EU, perhaps because its wealthy citizens—with an average income approaching that of western Europe—saw least to gain from moving. As other parts of the region catch up, and as the novelty of heading west wears off, the heavy flows of recent years may be ending.

Slowing migration will probably affect the world's poorest the most. A World Bank report in early June noted that $1 trillion of private money flowed to poor countries in 2007, but predicted that, as a result of the economic slowdown in rich countries, that figure will probably fall back to around $800 billion by 2009.

Some of that drop is explained by the expected decline in remittances. For some countries, notably in South Asia, where such funds account for a large part of national incomes (16% of GDP in Nepal in 2007, 9% in Bangladesh), the fall will be painful indeed when combined with higher fuel and food prices. The result will be more people falling back into poverty.

For richer economies a cyclical downturn in migration may not hurt. One of the great benefits of the easier movement of workers is that they help to keep labour markets flexible. When economies grow and need more labour, migrants step in. When they slow, migrants shift if they can, rather than hang around on welfare.

Silencing the xenophobes

Politically, too, a downturn in migration may be just what is needed to avoid a much nastier xenophobic backlash in some countries. One risk, however remote, is a return to the sort of hostility that followed record rates of immigration to America in the early part of the last century. Today in America the foreign-born share of the population is around 13%, not far off the peak of 15% just under a century ago. That

peak was followed by much tougher legislation (aimed, in particular, at darker-skinned migrants and those from Asia) that all but choked off mass immigration for decades, coinciding with an upsurge in protectionism in America and beyond. If anti-foreigner politicians have less to grumble about, the pressure to impose laws that would do long-term damage to migration flows may also lessen.

But even rich countries might worry about a downturn in migration that is more than temporary. Their workforces are ageing and shrinking. A recent report from Goldman Sachs notes that as America's labour force grows more slowly, overall economic output will also slow. It suggests that new migrants have typically added 0.5% to American GDP each year in the past decade, as the foreign-born population has grown to nearly 40m people.

When ready, America has a big pool of labour to dip into again. Its migration downturn is most likely to be a temporary one. For Europe, it may be a different story. To find people to do the jobs that Europeans dislike—such as working in care-homes for the elderly—governments and others are recruiting from farther and farther afield. Italy has recently signed a contract with Sri Lanka's government to supply, on temporary contracts, guest-workers for old-people's homes. Expect Britain to turn again to traditional sources of migrant labour in South Asia. Moldova is next in line to supply temporary migrants to the EU. If the supply of willing workers from neighbouring countries dries up, the rich world will need more such deals with more remote countries.

Gun control

The Supreme Court opens fire

Jun 26th 2008 | WASHINGTON, DC
From The Economist print edition

AP



The Nine strike down a gun ban and delight the firearms lobby

AFTER 217 years, the Supreme Court appears finally to have settled one of the most hotly disputed questions in American constitutional law: who has the right to pack heat? The second amendment says: “A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed.” The odd punctuation makes it unclear what this means. Can anyone own a gun, or only those who serve in a militia?

On June 26th, five of the nine justices ruled that the right to bear arms is an individual right. In *DC v Heller*, they struck down a near-total ban on handgun ownership in Washington, DC. But they allowed for some restrictions on gun ownership. States or cities may still continue to prohibit the carrying of concealed weapons, and “dangerous and unusual weapons” may still be barred.

“Undoubtedly some think that the Second Amendment is outmoded in a society where our standing army is the pride of our nation, where well-trained police forces provide personal security, and where gun violence is a serious problem,” wrote Justice Antonin Scalia for the majority. “That is perhaps debatable, but what is not debatable is that it is not the role of this court to pronounce the Second Amendment extinct.”

Gun-lovers are guardedly jubilant. More lawsuits challenging gun-control laws are now likely. The toughest such laws tend to be in cities, where liberals far outnumber hunters and gun curbs are broadly popular. Some of these will probably fall foul of the new precedent. Shirley Franklin, the mayor of Atlanta, bleakly predicts that litigation will divert resources from fighting crime.

Advocates of gun control, who credit tough gun laws with helping to reduce the murder rate in many American cities, are distraught. They must now try to figure out how to craft curbs that could pass constitutional muster, but it is not entirely clear what these might be.

The Supreme Court made two other rulings this week that delighted conservatives. It slashed by $2 billion the punitive damages that Exxon must pay for the Exxon Valdez oil spill in Alaska 19 years ago, setting a precedent that could curb future pluck-a-number-out-of-thin-air awards. And it threw out a law that freed incumbent politicians from many campaign spending restrictions if challenged by a rich opponent.

But it is the gun ruling that will send out the most ripples. Nationally, gun rights are popular, but so are

modest restrictions on them, such as background checks to weed out criminals and crazy people, and waiting periods to allow angry people time to calm down. These sorts of restrictions, however, should remain safe from challenge, despite this week's ruling.

If the decision reassures law-abiding gun owners that their weapons are safe, it could help Barack Obama, since those gun-owners will feel safe to be swayed by other things they might like about him, such as universal health insurance. But if it reminds them that big-city liberals want to grab their guns, that could hurt him badly. Reporters will pester him about whether he agrees with the decision, and which gun restrictions, exactly, he supports.

Gun owners are disproportionately (though by no means entirely) white, southern and rural—a group Mr Obama has trouble appealing to. Bill Clinton found it hard enough in the 1990s, despite his charm and similar background. On the stump, he defended his proposal to ban assault weapons by pointing out that you don't need an Uzi to hunt deer. "I never saw a deer in a Kevlar vest," he would joke.

Mr Obama finds it tougher to strike the right note with rural whites. Face to face, he is persuasive—he won plenty of votes in rural Illinois when running for the Senate. But this is a national race, and he cannot meet more than a tiny fraction of voters in person. So it is easy for his opponents to paint him as a condescending liberal.

John McCain, Mr Obama's opponent, is hardly the gun lobby's darling. Heretically for a Republican, he favours background checks for those who buy guns at gun shows. But the National Rifle Association (NRA), the main gun lobby, vastly prefers him to Mr Obama. He made a point of going to the NRA's annual convention last month, where he spoke movingly of a 74-year-old woman who defended her home from a marauder who threatened to set fire to her garage.

An American's individual right to bear arms may now be secure. But the NRA still frets that lawsuits blaming gun-makers for the actions of criminals who use their products could bankrupt the industry. The vote-scaring slogans practically write themselves. Read my lips: no new guns!

Infrastructure

The cracks are showing

Jun 26th 2008 | CHICAGO AND NEW YORK
From The Economist print edition

AP



America's tradition of bold national projects has dwindled. With the country's infrastructure crumbling, it is time to revive it

THE Mississippi River pushed relentlessly past dozens of levees this month. Towns were submerged, their buildings tiny islands in murky water. Ducks paddled on ponds that had once been farmland. Some flooding was inevitable, given the force of the swollen Mississippi. But a poorly managed flood-defence system did not help.

For the past few years it has been hard to ignore America's crumbling infrastructure, from the devastating breach of New Orleans's levees after Hurricane Katrina to the collapse of a big bridge in Minneapolis last summer. In 2005 the American Society of Civil Engineers estimated that $1.6 trillion was needed over five years to bring just the existing infrastructure into good repair. This does not account for future needs. By 2020 freight volumes are projected to be 70% greater than in 1998. By 2050 America's population is expected to reach 420m, 50% more than in 2000. Much of this growth will take place in metropolitan areas, where the infrastructure is already run down.

If America does not act, says Robert Yaro of the Regional Plan Association (RPA), a body that plans for the New York-New Jersey-Connecticut region, it will have the infrastructure of a third-world country within a few decades. Economic growth will be constricted, and the quality of life will be diminished.

It is not surprising that the floods have put infrastructure in the spotlight, but this time it might remain there. Droughts have shown the need for better long-term planning. Thanks to the soaring oil price, a surge in demand for buses and trains has exposed ageing transport systems in big cities and meagre investment in small ones. And the Highway Trust Fund, which provides most of the federal money for transport projects, will be at least $4 billion in debt next year.

The private sector is hungry to invest. In May Morgan Stanley raised $4 billion for its new infrastructure fund, Kohlberg Kravis Roberts (KKR), a private-equity firm, launched a global infrastructure practice, and Pennsylvania announced that Citigroup and Abertis, a Spanish toll-road operator, had won an auction to lease the state's turnpike. Momentum for change exists. Will politicians respond?

America has a grand tradition of national planning, from Thomas Jefferson's vision for roads and canals in 1808, which influenced policy for the next century (and led to America's first transcontinental railway) to

Dwight Eisenhower's Federal Highway-Aid Act of 1956, which created the interstate system. Such plans stand in stark contrast to the federal government's strategy today. America invests a mere 2.4% of GDP in infrastructure, compared with 5% in Europe and 9% in China, and the distribution of that money is misguided. The more roads and drivers a state has, the more federal money it receives, explains Judith Rodin of the Rockefeller Foundation, which funds infrastructure research. This discourages states from trying to cut traffic. And because the petrol tax pays for transport projects, if America drives less, there is less money for infrastructure.

Even worse is the influence of the pork-barrel. Only around 20 states use cost-benefit analyses to evaluate transport projects; of these, just six do so regularly. Alaska's "bridge to nowhere" is an infamous result of this sort of planning. But it is not exceptional. Two months after the bridge collapsed in Minneapolis, the Senate approved a transport and housing bill that included money for a stadium in Montana and a museum in Las Vegas.

The result is disarray. America's ageing water infrastructure is sorely underfunded: the Environmental Protection Agency forecasts an $11 billion annual gap in meeting costs over the next 20 years. One heavy storm can cause ageing urban sewerage systems to overflow. Last summer an 83-year-old pipe in Manhattan burst, sending a geyser of steam and debris into the air. Competition for water itself has become vicious. Georgia and Tennessee are in an all-out brawl over it.

America's transport network is similarly dysfunctional, says a recent Urban Land Institute report. Important gateways, such as the ports in Los Angeles and New York, are choked. Flight delays cost at least $15 billion each year in lost productivity. Commutes are more dismal than ever. Congestion on roads costs $78 billion annually in the form of 4.2 billion lost hours and 2.9 billion gallons of wasted petrol, according to the Texas Transportation Institute. Although a growing number of Americans are travelling by train, the railways are old. America's only "high-speed" train runs between Boston and Washington, DC, on an inadequate track.

How can all this be fixed? In January a national commission on transport policy recommended that the government should invest at least $225 billion each year for the next 50 years. The country is spending less than 40% of that amount today. Yet more important than spending lots of money is spending it in better ways.

The Brookings Institution, a think-tank, recommends that America focus on metropolitan areas, or "metros", the top 100 of which account for 65% of population and 75% of economic output. "America 2050", led by the RPA and a committee of scholars and civic leaders, has a similar scheme for "megaregions", or networks of metros. The federal government should do what it can to ensure that these areas, first of all, have the infrastructure they need to thrive.

This means, among other things, an enhanced federal role in projects that cross state borders, including not only the interstates but intermodal freight and high-speed rail. A better system for evaluating a project's benefit—within a broader strategy for economic development, for example—would help the public get more for its money. Metros would be given more incentives to reduce congestion and sprawl.

Barack Obama, the Democratic presidential nominee, has echoed many of these ideas. John McCain, the Republican one, derides the "bridge to nowhere"; his website even has a video game, "Pork Invaders". But so far he has no strategy. Mr Obama's plans include creating an infrastructure bank to help finance transport projects, supporting high-speed rail and investing in subways and buses.

Most controversial will be the question of how to pay for all this. Mr Obama's infrastructure bank would aim to attract private capital. But the private sector's role remains contentious. Both the Senate and the House have passed bills to raise money for passenger rail, but the White House wants private operators to be more involved. Pennsylvania's effort to lease its turnpike, which follows similar deals in Chicago and Indiana, must still be approved by a sceptical state legislature.

User fees, says Mary Peters, the secretary of transport, are a way to reduce congestion while raising revenue for other projects. Introducing road pricing in just the biggest 98 metropolitan areas would generate some $120 billion a year, according to a study by Brookings. But it will be hard. New York's legislature has quashed a plan for congestion pricing, though the federal government had promised $354m.

There is reason to hope. Beyond the campaign trail, many politicians have made infrastructure a big issue. Mr Obama's infrastructure bank is a variation on a scheme that Chris Dodd, a Democrat, and

Chuck Hagel, a Republican, introduced in the Senate last year. (The bill, is still pending.) In the House, Earl Blumenauer has proposed a commission to guide infrastructure investment. Ed Rendell, Arnold Schwarzenegger and Michael Bloomberg, the political juggernauts in Pennsylvania, California and New York City respectively, have launched a coalition to make infrastructure a national priority.

The benefits of investment would be felt in many ways. Terence O'Sullivan, president of the Labourers' union, says 47,500 jobs will be created for every $1 billion the government spends on infrastructure. "Make no little plans", said Daniel Burnham, one of America's great urban architects. "They have no magic to stir men's blood." It's time to think big again.

The campaign

Humbug all round

Jun 26th 2008 | WASHINGTON, DC
From The Economist print edition

Not the finest week for the candidates

AS HEADLINES go, “Politician Breaks Promise” is hardly “Man Bites Dog”. But Barack Obama’s broken promise to accept public funds for his presidential campaign was nonetheless newsworthy. Last year, when he was a plucky outsider running against the mighty Clinton machine, he vowed to break with the mucky money politics of the past by adhering to the strict spending limits that come with public subsidy. On June 19th, having discovered that he is the best fund-raiser in American political history, he broke his word.

That was canny, but hardly virtuous. So even some of his fans find it galling that he seeks to portray it as such. “Even though we stood to receive more than $80m in taxpayer funding for our campaign, the system has been so gamed and exploited by our opponents that it is effectively broken,” proclaimed his website. Then, on a mock-up of an old parchment, it boasted that over 110,000 citizens “have declared their independence from a broken system by supporting the first presidential election truly funded by the people.”

This is the audacity of humbug. Mr Obama has long maintained that taxpayer-funded campaigns save the candidate from becoming obligated to private donors. Now he suggests that relying on private donors shows moral courage akin to that displayed by those who signed the Declaration of Independence.

Mr Obama is so confident in his fund-raising ability that he asked his donors this week to help Hillary Clinton settle the debts she ran up while running against him. So far, Mr Obama has raised more than twice as much as John McCain—$287m to $120m. During the general election campaign, Mr McCain, who is accepting public funds, will be allowed to spend no more than $84.1m. Mr Obama could easily have $300m to play with. Not much of the fair fight about that.

The cash mountain will allow him not only to outspend Mr McCain in swing states, but also to take the battle deep into Republican territory. He plans to have staffers in all 50 states within weeks, and to buy airtime for advertisements in as many as half of them. Mr McCain will have to expend scarce resources defending states Republicans usually take for granted, such as Georgia and North Carolina.

Both candidates will be helped and harmed by independent groups, which can spend as much as they like, and by partisans venting on the internet. A popular video on YouTube shows actors giving preposterous reasons for voting Republican. A grandma says: “I think the whole world should be run by one big corporation. I think it would be so much cosier.”

Meanwhile, James Dobson, the founder of Focus on the Family, a socially conservative group, accused Mr Obama of distorting the Bible and peddling a “fruitcake interpretation” of the constitution. His main complaint was that Mr Obama is pro-choice on abortion. He is also outraged that the Democrats plan to restore the “Fairness Doctrine”, a regulation they hope will muzzle conservative talk radio.

Mr Obama is besieged by false rumours about his faith, patriotism and wife. His campaign has set up a website, fightthesmears.com, to refute the most damaging ones, such as that he won’t say the pledge of allegiance and that he is a Muslim. This will help clear the air. But calling the rumour that he is a Muslim a “smear” does not endear him to Muslims. Nor does the fact that his staff excluded two Muslim women from standing behind him at a rally because they wore headscarves.

Both campaigns continue to make gaffes. Charlie Black, a McCain adviser, told *Fortune* magazine that a fresh terrorist attack would be “a big advantage” for his man in November. This is obviously true, just as it is obviously true that a recession would help Mr Obama. But it was tactless.

With four months to go before the election, Mr McCain is seven points behind in the polls and in a

different league when it comes to fund-raising, so he badly needs a jolt of energy. On June 23rd he unveiled a new gimmick to woo green voters. He promised a $300m prize for whoever invents a car battery that delivers power 30% more cheaply than today’s models. Sceptics pointed out that the builder of a better car battery will find the world beating a path to his door anyway.

Budweiser and St Louis

Crying into their beer

Jun 26th 2008 | ST LOUIS
From The Economist print edition

Locals fear more job losses

MISSOURI'S politicians, from the lowliest alderman to the governor himself, are up in arms. Its Republican senator, Kit Bond, and its Democratic one, Claire McCaskill, have put aside differences and are asking the Justice Department to step in. The governor of Missouri, Matt Blunt, has ordered state agencies to do all they can to block the dreadful move. The cause is InBev of Belgium's $46 billion bid for Anheuser-Busch. Busch brews Budweiser, probably America's most famous beer and the world's bestselling one. The company, though not the largest employer in St Louis, has its headquarters there and is a huge part of the city's identity.

Patriotic beer-lovers have mounted a campaign to keep Budweiser in American hands. Websites appeared overnight once news of the bid broke and have so far collected around 70,000 signatures on electronic petitions. Yard signs and bumper stickers have sprouted, and on June 14th protesters marched to Busch stadium, one of the many fruits of Anheuser-Busch's 150 years in St Louis.

Despite the local jokes about pouring Bud on Belgian waffles and Jean-Claude Van Damme karate-chopping the Clydesdale horses that pull the famous Budweiser beer wagon, a serious fear besets the opposition. InBev has a history of downsizing its acquisitions, selling off assets and cutting jobs. Some fear that as many as 2,000 blue- and white-collar jobs could be lost at the St Louis brewery and its corporate headquarters. Busch's amusement parks around the country might be sold and Grant's Farm, where the Busch family has opened part of its estate to the public, could close.

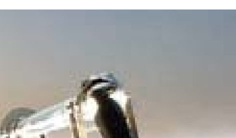
The Anheuser-Busch board will formally reject the offer, but St Louisans remain wary of any talk of takeovers. They saw many jobs lost when May Department Stores was bought in 2005. They saw hundreds laid off and their airport largely emptied when Trans World Airlines, which used St Louis as a hub, went under in 2001. They have seen many local businesses shuttered and former corporate headquarters standing empty. And now, they fear, they will not even have a locally owned glass of beer to drown their sorrows in.

Renewable energy

Freezing the sun

Jun 26th 2008
From The Economist print edition

A double blow for solar energy


EPA



IT SEEMED so promising—mirrors sprawled across desert land in the scorching south-west delivering clean electricity and helping to wean Americans off imported fossil fuels. Some scientists and industry developers claim that Nevada's empty and sun-drenched expanses alone could supply enough terawatts to power the entire country.

Now even the optimists fear this wonderful prospect may be a mirage. Congress has been dithering over extending a valuable investment tax credit for solar-energy projects, which solar advocates say is critical to the future of their industry but which is due to expire at the end of the year. The latest attempt failed in the Senate earlier this month: prospects for a deal before November's presidential and congressional elections now look dim. Uncertainty has led some investors to delay or abandon projects in the past few months. Rhone Resch, the president of the Solar Energy Industries Association, said if the tax credits are allowed to expire at the end of the year, "it will result in the loss of billions of dollars in new investments in solar."

Further dampening hopes for a big solar-energy boom, the federal Bureau of Land Management (BLM) has abruptly slapped a moratorium on new applications to put solar collectors on federal land. The agency says it has a backlog of more than 130 applications and needs to conduct a region-wide environmental-impact study on the industry before it will accept any more. The study will take 22 months to complete, however. Few argue against trying to preserve precious water sources and protect desert tortoises and other creatures that might not enjoy cohabiting with sprawling fields of mirrors. But many solar advocates wonder why the government is not acting as cautiously when it comes to drilling for oil and gas.

Senator Maria Cantwell, a Democrat from Washington state, wants a congressional probe into the proposed moratorium. "The fact that the BLM pops this out without people even knowing about it, especially when solar thermal looks extremely promising as a baseload [power source], is not right," she says. Harry Reid of Nevada, who is the majority leader in the Senate, also condemns the BLM's freeze, saying that it could "slow new development to a crawl".

The BLM is not without its supporters, however. At a public meeting on June 23rd in Golden, Colorado, Alex Daue, of the Wilderness Society, said that his organisation supports renewable-energy development as long as it doesn't damage other important resources. The message is clear: no rubber stamps, even for renewable energy.

Worker protection

The price of a tomato

Jun 26th 2008 | MIAMI
From The Economist print edition

Next stop, Subway

AP

Do you want special sauce with that?

A CAMPAIGN to improve the low wages and awful labour conditions of tomato pickers in Florida has notched up a substantial victory over farm owners and their biggest clients, the fast-food chains. After one embarrassment on top of another, Burger King backed down last month and reached a ground-breaking agreement with the Coalition of Immokalee Workers, representing mostly seasonal farmworkers from Mexico, Central America and Haiti. The Miami-based company agreed to pay them one cent more for every pound (450g) of tomatoes they pick, and to improve their working conditions.

Florida is the leading winter supplier of tomatoes to America, providing more than 80% of shipments, according to the Florida Tomato Committee. The new agreement came after years of pressure on the growers and fast-food chains, which intensified over the past six months and included a congressional hearing at which growers were accused of enslaving and mistreating their workers.

Some companies, led by Taco Bell, had agreed as early as 2005 to pay the extra cent the farmworkers were demanding. McDonald's followed suit last year. But the powerful Florida Tomato Growers Exchange, which represents 90% of the state's producers held out. It threatened to fine anyone who paid the extra cent a whopping $100,000.

The extra cent a pound is the first pay increase workers have received in 30 years. Even with it, a picker would have to fill 15 32-pound buckets an hour to earn Florida's minimum wage of $6.79—a tall order in the broiling sun. A campaign in favour of the workers has in recent months secured the backing of members of Congress and many church groups. In April a petition with 85,000 signatures was delivered to Burger King. The firm was also embarrassed by press revelations that two of its officials had anonymously posted demeaning comments online about the workers, calling them "bloodsuckers" and "the lowest form of human life".

The coalition is still on the warpath. It wants other big buyers to pay the extra cent. It is targeting Wal-Mart, as well as the Subway sandwich store chain, Chipotle restaurants, and Whole Foods supermarkets. But most of all it wants people to think about what goes into the sauce they slather on their burgers.

El Paso

Living together

Jun 26th 2008 | EL PASO
From The Economist print edition

The climate is fantastic, and cross-border business is thriving. But the cartels are a big problem

IT WAS a quiet Friday night in El Paso for Sandra, a young student. Her friends had gone across the border to Ciudad Juárez for a film festival. She had been looking forward to it, but at the last minute felt "*una semilla*", a seed of doubt. Women have been getting murdered in Juárez for a long time—hundreds in the past 15 years, with many more missing, and the cases unsolved—but she always felt that you have to keep living your life. Of late, though, the violence has gone to another level. The weekend before, there were two dozen people killed in Juárez, casualties of the fierce war between Mexico's drug cartels.

Violence and chaos never come at a good time, but the current upsurge is frustrating for Texas's sixth city. El Paso is separated from the rest of the state by hundreds of miles of mostly empty desert; in fact, it is closer to San Diego, on the Pacific, than to Houston. Locals complain that nobody cares about them. In the past, some would have added that the city did not care about itself. Over the past year the FBI has been investigating dozens of prominent citizens as part of a public corruption probe. But lately El Paso has become more ambitious.

The county, some 740,000 strong, is expecting a wave of spending from the expansion of its local army base. In 2005 Fort Bliss had 25,000 people, counting troops and their families. By 2013 it will have 90,000. The construction alone will pump several billion dollars into the local economy. Another coup is a new medical school, which was accredited in February. It will be the first located on the border.

The economy is fairly strong. One recent report predicted that El Paso will have the third-fastest rise in its "gross metropolitan product" in 2008—4.4%, compared to a national average of 1.4% for America's metropolitan areas. The latest from the Federal Reserve Bank of Dallas is that El Paso has added 3,100 jobs in the year to date, which is enough to keep unemployment stable at 5.5% in May, the national average. Many American cities are doing much worse than that.

Downtown revitalisation is also part of the good news. Elizabeth Taylor spent her first honeymoon with Nicky Hilton in his downtown hotel in 1950. The district was then pretty much ignored for the next 50 years. There are only 300 housing units downtown, and not many restaurants. It empties out at the end of the day as everyone scatters into the sprawl. Now El Paso wants to recapture some of the old glamour. One advantage of the neglect is that many attractive art deco-style buildings are still around. The city is sponsoring art projects and laying on free wireless internet for everyone.

Such excitements aside, the big thing about El Paso is its sister city in Mexico. Juárez is much larger than El Paso (more than 1.5m people), but poorer and far more troubled. Businesspeople on both sides say the two cities form a single economic unit. According to Bob Cook, the president of the Regional Economic Development Corporation, more than 50,000 El Pasoans are employed because of the Mexican *maquiladora* industry—commuting to management or support jobs in the *maquilas* every day, where goods are processed for export to America. Mexican shoppers account for a fifth of El Paso's retail business. Americans benefit from shopping in Mexico, too, crossing over to fill up with cheap petrol.

And the ties between the cities are not only professional. Some 80% of El Pasoans are Hispanic, and many have family or friends in Juárez. El Pasoans, like most people in South Texas, are uniformly opposed to the border fence that the federal government is building. "Everybody around here thinks that it's a pretty foolish endeavour," says Toby Spoon, who commutes to Juárez every day for his job as vice-president of The TECMA Group, a company that helps American manufacturers operate in Mexico. "We interact like one big community."

This relationship means that Juárez's worsening violence is El Paso's problem, too. Some 2,500 Mexican

soldiers and federal police were deployed to Juárez in March, but the violence has not abated. El Paso is a safe city, but residents are becoming anxious. The local hospital has been locked down twice while doctors treated Mexican police officers who had been wounded. They were worried that gangsters would burst in to finish the job, as has happened in Juarez. Even if the violence stays on the southern side of the river, it casts a shadow.





Lexington

The politics of hip-hop

Jun 26th 2008
From The Economist print edition

Illustration by David Simonds



Can rap change the world?

“WRITING about music is like dancing about architecture,” intoned Elvis Costello, a pop star. So a columnist approaches the subject of hip-hop (which includes rap) with caution. One cannot hope to capture its sound or fury on the page. Instead, Lexington will ask what it signifies. Is it “pavement poetry [that] vibrates with commitment to speaking for the voiceless,” as Michael Eric Dyson, a professor at Georgetown University, believes? Is it “an enormously influential agent for social change which must be responsibly and proactively utilised to fight the war on poverty and injustice,” as the Hip-Hop Summit Action Network (HSAN), a pressure group, contends? Or is it mostly “angry, profane and women-hating… music that plays on the worst stereotypes of black people,” as Bill Cosby harrumphs?

None of the above, argues John McWhorter, in a new book called “All About the Beat: Why Hip-Hop Can’t Save Black America”. Mr McWhorter, a fellow of the Manhattan Institute, a conservative think-tank, is a hip-hop fan. He likens the group OutKast to Stravinsky. He admits that some hip-hop lyrics display an ungentlemanly attitude towards women, but he doubts that listening to violent lyrics causes people to behave more violently. If it did, there would be more opera fans stabbing their ex-lovers outside bullfights.

Mr McWhorter also thinks people take hip-hop far too seriously. Those who disapprove of it vastly overestimate its capacity to corrupt. And those who expect it to foster a political revolution that will dramatically improve the lot of black Americans are going to be disappointed.

The most popular rappers are brilliant entertainers. They have also done a lot to make people aware of the difficulties facing poor urban blacks. But their political views are neither particularly acute nor central to their work. Consider the hot album of the moment: “Tha Carter III” by Lil Wayne. Its central message is that if you are a rap star, you will get laid. The song “Lollipop”, for example, celebrates a young lady who treats Lil Wayne as she might a lollipop.

On the last track Lil Wayne does get serious. He laments that “one in every nine black Americans are locked up” and that “the money that we spend on sending a motherfucker to jail…would be less to send his or her young ass to college.” Troy Nkrumah, the chairman of the National Hip-Hop Political Convention, thinks it wonderful that Lil Wayne is speaking truth to power. But if Lil Wayne is to be taken seriously, it needs to be pointed out that his “one in nine” figure is inaccurate—it is true only of black

men aged 20-34, not black Americans in general. And his analysis is simplistic: the government's spending priorities are not the sole determinant of whether you break rocks or read books.

Earnest hip-hop fans often argue that "commercial" rappers such as Lil Wayne are beside the point. Hip-hop's revolutionary potential is best expressed by "conscious" rappers who focus on important issues rather than babes, bling and booze. The Roots, a group from Philadelphia, are often cited as an example. Their message? "If I can't work to make it, I'll rob and take it. Either that or me and my children are starving and naked."

But crime and starvation are hardly the only options. Even without a high-school diploma, a black man can probably find a job if he looks. And some manual jobs, such as plumber or cable technician, pay quite well. "It may well be that you can't write much of a rap about training someone to fix heaters or air conditioners," sighs Mr McWhorter.

Conscious rappers are often well-meaning. Dead Prez, a duo from Florida, sometimes toss apples into the audience to encourage healthy eating. But when it comes to more contentious political issues, hip-hop offers no plausible solutions; only impotent and sometimes self-destructive rage. In "Lost in tha System" by Da Lench Mob, for example, the vocalist says, of a judge: "He added on another year cos I dissed him. Now here I go gettin' lost in the system." The disrespect in question was a suggestion that the judge perform fellatio on him.

Fans love rappers partly because they strike such a confrontational pose. Dead Prez sometimes burn dollar bills to protest the evils of capitalism, and their lyrics accuse teachers of teaching "white man lies". Mr McWhorter summarises the message of hip-hop as: "Things will keep sucking until there is a revolution where the white man finally understands and does a complete 180-degree turn." This was true half a century ago in the segregated South. But today, it is nonsense.

The limits of protest

Some people argue that hip-hop is politically consequential because activists can use the music and the culture that surrounds it to communicate with young people who might otherwise shun politics. There is something to this. For example, in 2004 the superstar P. Diddy fronted a fairly successful voter-registration campaign called "Vote or Die". And HSAN once co-sponsored a rally to protest about a proposed $300m cut to the New York City school budget. The cut never happened. HSAN trumpets this as a great victory. But it is hardly evidence that hip-hop can change the world. That $300m is a tiny slice of what New York spends on its schools, and lack of money is far from the main obstacle to improving them.

Civil-rights activists in the 1960s were inspired by protest songs, but the songs did not drive the movement. Political change requires hard and often tedious work, as the thousands of weary volunteers working for Barack Obama can attest. Incidentally, one might think that Mr Obama's spectacular rise undermines the argument that a black man can never get a fair shake in America. But Mr Nkrumah shrugs that even if Mr Obama is elected president, he will be powerless to implement progressive policies because the corporate power structure will not let him.

Biofuels in Brazil

Lean, green and not mean

Jun 26th 2008 | RIBEIRÃO PRETO
From The Economist print edition

Eyevine



The United States may drop a tariff on Brazilian ethanol. But the industry is still the victim of much misplaced criticism

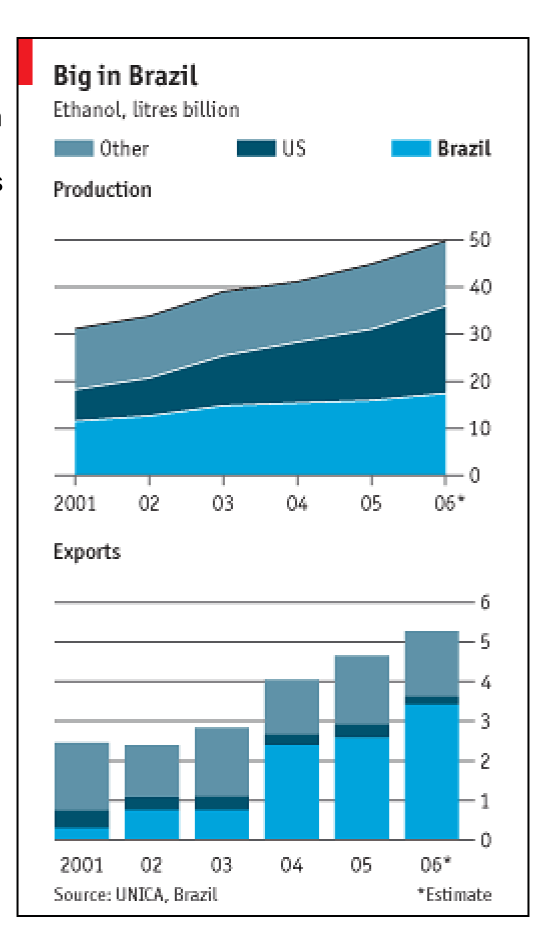
WHEN John McCain laid out his plans for reducing America's dependence on oil to an audience in California on June 23rd, the candidate's keenest listeners were 6,000 miles away in São Paulo. Mr McCain argued that the tariff on imported ethanol of 54 cents per gallon should be scrapped. Others in the Senate (though not Barack Obama) are pushing for it to be reduced. Either way, the case against the tariff has been strengthened by high oil prices and by the June floods that damaged the mid-western corn (maize) crop. That sent corn prices soaring and made subsidising corn to produce ethanol look like an even worse idea than it did before, given the greener, cheaper ethanol that the United States could buy from Brazil instead.

America's thirst for ethanol is set to grow in line with targets in last year's Energy Independence and Security Act. Brazil would like to sell more to Europe and Japan too. Yet just when it seems poised to reduce the world's dependence on oil, its largely sugar-based ethanol industry stands accused of being less wonderful than it looks. Campaign groups lump it together with biofuels elsewhere, which they blame for raising food prices. Some environmentalists claim that Brazilian farmers have torn up forest to plant cane. Some media reports allege ill-treatment of farm workers. More prosaically, some American officials question how much ethanol Brazil can supply.

Take this last point first. Demand for ethanol is growing fast in Brazil because 90% of new cars have flex-fuel engines that can run on any mixture of petrol and ethanol. Even so, ethanol remains cheap. This is because producers have invested in expanding capacity (see chart), partly because they hope for export markets, but mainly because they reckon they must sell at a 30% discount to petrol to keep the custom of Brazilians. The price of petrol has not risen for three years because the government has opted to hold it down.

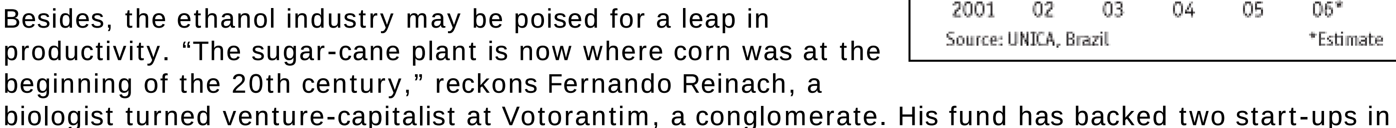
This year Brazil hopes to export up to 3 billion litres of ethanol to the United States. But this market depends on the corn price being so high as to make it profitable to pay the import tariff. That was not the case last year and it may not be the case next year. Brazil could expand output much more, but will do so only when export markets are less unpredictable. That is because supplying them requires investment in pipelines and port

equipment.



For those worried about climate change, Brazilian ethanol is worth buying only if it is as green as it claims to be. It is certainly much greener than its corn-based rival in America: it packs 8.2 times as much energy as is used in its production, compared with just 1.5 times for corn ethanol, according to the Woodrow Wilson Centre, a Washington think-tank. Some greens say that the spread of sugar is deforesting the Amazon. That is not true. The vast majority of the sugar crop is grown thousands of miles away from the forest, in São Paulo state or the north-east. Some 65% of new planting of sugar cane has been on land that was previously pasture; the rest was previously used for other crops, according to Conab, a government agency.

But might ethanol be indirectly responsible for lifting food prices and for pushing cattle ranchers into the Amazon? Such concerns look premature. Sugar cane occupies only 7m hectares (17m acres) of Brazil's farmland (and only about half of the crop is distilled into ethanol). This compares with some 200m hectares devoted to cattle ranching, much of which is extensive (a Brazilian cow enjoys, on average, a lordly hectare of grazing). Sugar could expand on degraded pasture with little or no effect on beef prices.



Besides, the ethanol industry may be poised for a leap in productivity. "The sugar-cane plant is now where corn was at the beginning of the 20th century," reckons Fernando Reinach, a biologist turned venture-capitalist at Votorantim, a conglomerate. His fund has backed two start-ups in Campinas in São Paulo state.

One of them, CanaVialis, breeds better varieties. The other, Alellyx, alters the genes in the plant to give them new properties (one strain being tested gives about 80% more sucrose; another can go for 45 days without water). It is run by Paulo Arruda, a Brazilian who led a team of 200 people in sequencing the DNA for sugar cane. Across the road is Amyris, a Californian company which has developed enzymes that in laboratory experiments have turned sugar into substitutes for motor and jet fuel.

In this high-tech environment, it is easy to forget that the early part of the ethanol production line consists of labourers spending long days swinging machetes in hot fields of charred cane. The Brazilian labour ministry sometimes uncovers cases where workers are paid almost nothing and live in squalid conditions. Cane-cutting is back-breaking work, and every year some people die during the harvest.

Yet the sugar industry may be less deadly than many others. In 2005, of its 440,000 workers, 453 died; of these 17 (or one in 26,000) were killed in accidents, according to a study by Márcia de Moraes of the University of São Paulo. In the same year 2,900 of the 2.16m workers toiling in other branches of Brazilian farming died. Of them, 135 were killed in accidents, giving a higher accidental death rate of one in 16,000, even though the sugar harvest lasts much longer than that for any other crop.

In fact the most noticeable thing about cane-cutting labourers is how fast they are disappearing. At Santelisa Vale, a collection of mills in Ribeirão Preto whose owners include Goldman Sachs, an investment bank, 60% of cane-cutting is already mechanised. The remaining manual cane-cutters will go by 2012. The story is similar across São Paulo state. This may make for a safer industry, but it threatens to leave a large, unskilled workforce unemployed.

To Brazilians, outsiders who want to block their ethanol in the name of environmentalism or concern about food prices or labour conditions look like old-fashioned protectionists in hypocritical disguise. When addressing a United Nations food summit in Rome recently, President Luiz Inácio Lula da Silva said that he was fed up with "fingers soiled with oil and coal" being pointed at his country's ethanol industry. Quite so: the tariff should go.

Cuba

Anyone for cocktails?

Jun 26th 2008 | LONDON AND MEXICO CITY
From The Economist print edition

Illustration by Claudio Munoz



Outsiders bet that bigger changes are on their way

THE diplomatic sanctions imposed by the European Union after Cuba jailed 75 dissidents in 2003 were hardly painful. They mainly consisted of restricting political contacts and inviting dissidents to embassy functions, prompting a boycott by Cuban officials that became known as the “cocktail war”. The sanctions were suspended in 2005. Nevertheless, the EU’s decision on June 19th to lift them was symbolically important. It was another small indication that as Cuba edges towards life after Fidel Castro, relations between the communist island and the outside world are evolving too.

The EU’s decision was a surprise. The socialist government in Spain—the largest European investor in Cuba—has long wanted closer ties. Last year its foreign minister began regular talks with his Cuban counterpart. But the former Communist countries of eastern Europe, together with Sweden, were reluctant to drop the sanctions while most of the dissidents arrested in 2003 remain in jail.

They were won over by the notion that things are starting to change in Cuba, especially since Fidel Castro formally handed over the presidency to his brother, Raúl, in February. Mainly this has involved small economic steps, such as dropping bans on Cubans owning various consumer durables and turning more state land over to private farming. In lifting the sanctions, the EU reiterated its calls for Cuba to release all political prisoners, implement the international human-rights covenants that it recently signed, and make “real progress towards a pluralist democracy”.

Cuba’s reaction to the EU’s move was itself telling. In an article on a Cuban website, Fidel Castro fulminated against “enormous hypocrisy” (because the EU also agreed a streamlined procedure to expel illegal migrants, who include many Latin Americans). Europe, he said, wanted “impunity for those who would hand [Cuba] over to imperialism”. But in an apparent sign that it is no longer taboo to disagree with the comandante, Cuba’s foreign minister, Felipe Pérez Roque, described the move as “a step in the right direction”.

The United States is unlikely to follow Europe’s lead. According to Caleb McCarry, whom George Bush appointed as his “Cuba transition co-ordinator”, Raúl Castro’s government would need to free all political prisoners, allow civil and political freedom and open “a pathway to free and fair elections” before America would relax its 46-year trade embargo. Such changes are unlikely as long as Fidel lives, and are not inevitable thereafter.

Any change in American policy therefore depends on the outcome of the presidential election. Barack

Obama has said that he would reverse restrictions on remittances and family visits to Cuba imposed by Mr Bush. That might be a prelude to bigger policy changes. John McCain would maintain the existing policy.

As for Latin America, it has no appetite for isolating Cuba, says José Miguel Insulza, the secretary-general of the Organisation of American States. Since illness forced Fidel to turn over his powers two years ago, several Latin American countries have sought closer relations with Cuba. In January Brazil's president, Luiz Inácio Lula da Silva, visited the island with a string of businessmen in tow, signing trade and investment deals worth $1 billion.

Mexico's president, Felipe Calderón, has reversed his predecessor's policy of speaking out against the lack of human rights in Cuba, and has restored his country's traditionally close ties. Earlier this year Patricia Espinosa, Mexico's foreign minister, renegotiated $400m of debt on which Cuba had defaulted. Cultural exchanges have increased, and Mr Calderón is expected to visit Havana soon.

This closer embrace of Cuba mixes self-interest with calculation. In Mexico, as in the United States and Spain, Cuba is a domestic political issue. Some commentators argue that in repairing relations, Mr Calderón hopes to appease the left-wing opposition, which disputed his election victory in 2006. Instability in Cuba, just 135 miles (220km) away across the Yucatán Channel, could pose a security threat to Mexico, argues Luis Rubio, a political analyst.

Both Brazil and Mexico see business opportunities on the island, especially since Fidel's successors are likely to be more open to foreign investment. And though they won't say so publicly, diplomats from these countries see closer ties as a way of balancing the influence of Hugo Chávez, Venezuela's president, who has replaced the Soviet Union as Cuba's main provider of aid. Unlike Mr Chávez, they will quietly support political liberalisation in Cuba, they say. They believe that Raúl Castro worries about Cuba's dependence on Venezuela and China. Some officials in Washington accept this argument, and say they are happy to see Latin American democracies seeking influence where the United States cannot.

However, not everyone in Latin America or Europe takes that view. Supporters of the jailed dissidents were critical of the EU's move. Over the past two decades, Latin American governments, egged on by outsiders, have signed international agreements that oblige them to support democracy and human rights in the region. In disregarding these when it comes to Cuba, both they and the EU are being irresponsible, says Jorge Castañeda, a former Mexican foreign minister.

What is certainly true is that those who argue for constructive engagement as a way to bring change in Cuba have little to show for it so far. But the American trade embargo has failed even more manifestly, as well as inflicting harm on ordinary Cubans. So far, change in Cuba has come in tiny, glacial movements. Many outsiders are betting that over the next year or two the pace will increase.

Give a fish a bad name

Jun 26th 2008 | PUERTO MONTT
From The Economist print edition

How to rescue the reputation of Chilean salmon

Reuters



Overdosed on antibiotics

A GENERATION ago, Puerto Montt, the last town before southern Chile breaks up into a myriad of islands and fjords, was such a dead place that wags changed its prefix to "Muerto" Montt. Nowadays it is booming, thanks to salmon farming, an industry that last year produced $2.2 billion in export revenues. That makes Chile the world's second-largest exporter of salmon after Norway. But some people worry that the industry has grown too fast for its own good.

Output is now stagnating, mainly because of the prevalence of diseases among the fish. These include infectious salmon anaemia, a virus that first appeared in Norway in the 1980s but from which Chile had remained free until last year. As if that was not enough, a report in the *New York Times* in March suggested that antibiotic and hormone residues could make Chilean salmon unsafe to eat.

The industry vigorously denies this—and it may well be right. But its defence has been impeded by a lack of hard data. For example, the National Fisheries Service, the government regulator, keeps no national register of the quantity of antibiotics administered to salmon in their feed.

Hitherto, the evidence has been that Chilean salmon is no worse than other farmed fish—and may be better. Importers have occasionally rejected shipments because of traces of malachite green, a forbidden fungicide, and, on one occasion in Japan, because of excess antibiotic residues.

But a study by American and Canadian scientists published in *Science* in 2004 found that the Chilean fish contained significantly lower levels of contaminants such as PCBs and dioxins than European salmon (although more than wild salmon). That was probably because Chilean fishmeal, used as feed, comes from cleaner waters.

Fundación Terram, a Chilean environmental outfit, supports the industry's claim that it doesn't use hormones. It agrees that the farms cease to administer antibiotics well before harvesting the salmon, as food-safety regulations in importing countries require. José Miguel Burgos of Aquagestión, one of several inspection laboratories in Puerto Montt, says that it is very difficult for the farms to befool the system of mandatory pre-harvest analysis of antibiotic residues. Aquagestión's tests mainly follow American norms, which ban residues of all but one antibiotic.

Nevertheless, antibiotics are used far more heavily in Chile than in Norway. That is partly to fight salmonid rickettsial septicaemia, a deadly infection widespread in Chile for which vaccines are only now being tested. But industry sources concede that managers at the farms, whose pay depends partly on keeping more fish alive, tend to overdose them on antibiotics. Sticking to recommended doses would cut their use significantly, reckons César Barros, the president of SalmonChile, the industry association. He wants maximum doses to be written into regulations.

Cutting reliance on antibiotics further requires preventing diseases from spreading. The industry argues that rationalising the permit system would help in this. Chilean farms are closer together and more densely stocked than their Norwegian counterparts. As the industry has grown, companies have acquired sites in several different places. They would like to be able to swap permits, to consolidate their operations in a single bay. They say this would enable sites to be left fallow for longer periods, allowing residues to disperse.

A team from the United States' Food and Drug Administration recently inspected Chilean salmon farms. Chile's government has set up a working group to look into the industry's problems. Tighter production limits may have to be set for individual farms. All sides agree that the fisheries service needs more resources.

These problems come at a difficult time: high fuel prices and the appreciation of the Chilean peso against the dollar mean that most producers will lose money this year, according to Mr Barros. But Chile's salmon farmers still have other advantages, including plenty of room to expand in clean waters and cheaper labour than competitors elsewhere. Provided it cleans up parts of its act, the salmon industry should still have a profitable future.




India

Manmohan Singh’s burning ambition

Jun 26th 2008 | DELHI
From The Economist print edition

AFP



To salvage an important policy, the prime minister allegedly gets tough with his government; then goes weak again

IN FOUR years as India’s prime minister, Manmohan Singh has come to resemble a bearded and turbaned Aunt Sally. A more quarrelsome government than his would be hard to recreate: it comprises his centrist Congress party and a dozen small leftist and regional outfits, and relies for a parliamentary majority on the “outside” support of India’s Communist parties. And Mr Singh has little control over this mutinous mix; his party boss, Sonia Gandhi, the Italian-born widow of a murdered Congress leader, runs the show. This arrangement has assured Mr Singh many brickbats, and little freedom to dodge.

But ahead of the latest volley—at “crisis” talks between the government and Communists on June 25th—Mr Singh allegedly threatened to up his stake and quit. At the least, he appears to have lobbied Mrs Gandhi hard on behalf of a controversial policy that caused the crisis: a civil-nuclear co-operation agreement with America, forged by Mr Singh and President George Bush in 2005. This pact, which still needs approval from other countries involved in nuclear issues and a final sign-off by America’s Congress, would provide energy-starved India with nuclear fuel and technology that it badly needs, without forcing it to submit to the strictures of the Nuclear Non-Proliferation Treaty (NPT). An unprecedented recognition of India’s nuclear-armed status and its international importance, this promised to be Mr Singh’s greatest achievement in foreign policy, or indeed in anything else.

But the Communists, anti-American to their sandalled feet, loathe it. If, as the next stage in an approvals process that is already far behind schedule, the government submits the deal to the International Atomic Energy Agency (IAEA), the UN’s nuclear guardian, the Communists say they will forsake it. This week’s meeting was, as it turned out, the government’s latest unsuccessful attempt to dissuade them. Another meeting is due in a fortnight.

So the government appears to have an uncomfortable choice. It can abandon the deal, which would be embarrassing. This would suggest that India is unable to honour the terms of a simple bilateral agreement—even one stacked in its favour. Or else the government can press ahead with the deal, and risk being reduced to a parliamentary minority, unable to pass legislation, and vulnerable to a vote of no-confidence. An election, due by May 2009, might ensue towards the end of this year.

If this transpires, the government might nonetheless salvage the deal, though it would be awfully tight. As

a dying act, it could submit the agreement to the IAEA's board, and hope that fair winds and American stewardship see it through. The IAEA would probably approve the pact. The 45-member Nuclear Suppliers' Group (NSG), its next destination, might prove stickier.

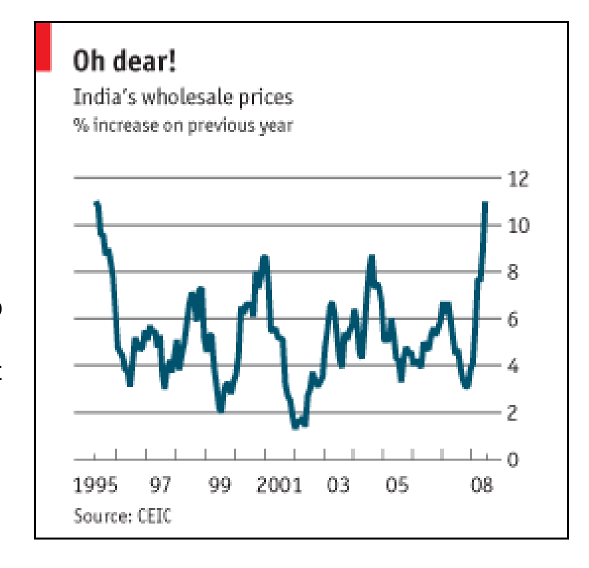
Several NSG members, including Austria and Ireland, are concerned about the deal's ramifications for the anti-proliferation effort. China, which reasonably suspects America of trying to plump up India as a counterweight to its own rise, may also want to scupper it. It will take time and muscular American influence to override these obstacles—and, in the dying days of Mr Bush's administration, both are likely to be in short supply.

Indeed, it is possible that the NSG might approve the deal, but leave the American Congress too little time to debate it before Mr Bush quits office on January 19th. That could even leave every NSG member except America jostling for lucrative nuclear contracts with India, with France and Russia at the head of the pack.

Plainly, if the deal is to be done, it needs doing quickly. So why, after his alleged flutter of derring-do, is Mr Singh not risking more to push it through? After all, even the government's worst fear, an early election, would cost it only a few months of its term. Only he and Mrs Gandhi may know the answer. Yet it is clear that for Indian parliamentarians, more than two-thirds of whom can expect to lose their seats in the coming election, a few more months matter greatly. And the nuclear deal, an example of the sort of highfalutin foreign policy that bothers only a few high-powered ministers, journalists and others in India, may not matter much. Moreover, having once been shy of facing an election, Congress and its partners are suddenly terrified.

It's the prices, stupid

Driven by high-cost oil, inflation has leapt to 11%—the highest rate in over a decade (see chart). Food prices have risen especially fast, so that inflation disproportionately hurts poor Indian voters, ie, the vast majority of them. On June 24th the central bank raised its main lending rate to 8.5%—another recent record high—in response. There is little else the government and its servants can do. Recent buoyant revenues, fruits of 9% annual economic growth, have been poured into vast welfare schemes: to employ rural paupers, forgive loans to small farmers, and so on. With a gaping budget deficit to worry about (by one forecast 9.4% of GDP this year), the government has little cash to spare for the inflation-afflicted.



This is excellent news for Congress's main rival, the Hindu-nationalist Bharatiya Janata Party (BJP). It was until recently stricken by a surprising election defeat in 2004. But since naming L.K. Advani, an octogenarian bruiser, as its prime-ministerial candidate last December, the party has been perking up. A string of state election victories—including in May in Karnataka, the first southern state to elect a BJP government—has also spread cheer in its well-drilled ranks. Surging inflation, along with an expectation of slower economic growth, has furnished the party with a potentially election-winning issue. Raising fears of the Muslim bogey—the BJP's preferred manifesto topper in some states with a history of communal tension—does not fly in the relatively pacific south. But slamming Congress for, say, squandering the wealth that BJP policies did much to create, might serve it well everywhere.

Against the threat of diplomatic humiliation and election defeat, the government seems, Micawber-like, to be hoping that something will turn up. Its prayers are mostly for a bumper autumn harvest, to rein in food-price inflation towards the end of the year. This would be a blessing for India's poor millions. But with prices sure to stay high, it might not convince many of this government's merits. That would surely take altogether more decisive leadership—of a kind that America thought it had identified in India, and rewarded.

North Korea

Going bang

Jun 26th 2008
From The Economist print edition

Finding the truth in the debris

AS NORTH KOREAN spectaculars go, the promise to blow up the cooling tower of the Yongbyon nuclear reactor, the source of plutonium for Kim Jong Il's nuclear arsenal, is a welcome new departure. The North Korean leader's previous attention-grabber was the detonation of a nuclear "device", possibly a small bomb, in October 2006.

Ironically, it was that blast which at last got China to lean hard on Mr Kim. This helped propel forward six-party talks that also include America, South Korea, Japan and Russia. As *The Economist* went to press this week, China was preparing to receive a long-sought account of North Korea's nuclear activities, America said it would lift some sanctions and start removing North Korea from its list of states that sponsor terrorism; the destruction of the Yongbyon tower was to symbolise a new turn in North Korea's dealings with the world.

This and other work to put Yongbyon out of action is welcome. North Korea agreed in 2005 to end all its nuclear programmes in return for energy assistance, and improved trade and political relations, especially with America. But the six-party effort has been repeatedly derailed.

Further progress could likewise be painfully slow. The declaration China receives this week was expected to reveal how much plutonium Mr Kim has produced, but not what he has done with it. Christopher Hill, America's chief negotiator, says that a tally of North Korea's nuclear weapons and their eventual dismantling is still a long way off.

There are likely to be other gaps too. North Korea is expected to own up to possessing 30-40kg of plutonium; America estimates the true figure could be 40-50kg. The difference is several bombs' worth. American nuclear experts have been poring over 18,000 pages of documents North Korea handed over to back up its figure.

But the documents themselves have deepened suspicion about other nefarious nuclear activities. According to Pakistan's president, Pervez Musharraf, North Korea took delivery of some 20 centrifuge machines for spinning uranium—another potential bomb ingredient—from a black-market nuclear network headed by Abdul Qadeer Khan, the disgraced former head of one of Pakistan's nuclear laboratories. Other evidence too points to a possible parallel nuclear effort. Mr Kim flatly denies this. But tests on the Yongbyon documents show unexplained traces of uranium.

North Korea has also given America an assurance that it is not now spreading its nuclear expertise to others, but there are doubts about that too. America recently released photographs that appear to show a nuclear reactor very like the one at Yongbyon being built secretly in Syria with North Korean help—until it was destroyed by Israel last September.

America has 45 days to look hard at the declaration Mr Kim hands over this week. That is the length of time it takes to remove a country from its terror list. The North Korean nuclear problem isn't solved yet.

Avian flu in southern China

A game of chicken

Jun 26th 2008 | HONG KONG
From The Economist print edition

The government's caution arouses suspicions about what it knows

ALMOST as long as it has had people, Hong Kong has had booths selling squawking live chickens. They are treasured by locals who spurn frozen meat, finding it tasteless. But after the latest in a series of outbreaks of avian influenza, the government has offered HK$1 billion ($128m) to put the whole business out of its misery. That is the cost of a plan unveiled on June 20th to buy back all the licences allowing live chickens to be sold.

The latest bout of bird flu was first detected in four wet markets in Hong Kong on June 11th. Since then there has been no panic. But fear has advanced in baby steps. The government at once ordered a cull of 3,500 birds being held for sale, and banned imports of live chickens from China for 21 days. The news reached the territory's elite when exclusive restaurants had to pull chicken from their menus.

Then came reports of 4,000 ducks dying at a Guangdong farm, having contracted, it was later confirmed, the H5N1 avian-flu virus. Another 17,000 birds were killed as a precaution and Hong Kong blocked imports of all birds raised within 13km (eight miles) of the affected farm.

The source of the original infection remains a mystery. So the government decided to preclude future problems with its drastic decision to end the live-chicken trade. The traders, many from families that have used the same stalls for generations, have rejected the offer of compensation for their licences as mean and misguided. They have threatened to release live poultry on to the streets. The government is continuing to negotiate with them. Public opinion on the issue is hard to gauge: as in any market, fear is battling greed, and in this case gluttony.

The ban on chickens imported from China expires on July 2nd. But they will have to be sold the day they are imported and those unbought will be slaughtered. Yet, amid all the carnage, questions remain about the seriousness of the outbreak. Sceptics wonder if it is merely another of many efforts to ensure that nothing, particularly an outbreak of disease, can cast a shadow on the Beijing Olympics in August. Others, however, point to the strength of the government's response, and ask if there is more to it. They recall the epidemic in 2003 of Severe Acute Respiratory Syndrome, or SARS, which killed hundreds of people before disappearing as mysteriously as it had arrived.

So some fear that the government knows more than it is letting on, particularly about the presence of avian flu in southern China, where health inspectors and the press both face constraints. Hong Kong insists all imports from China must come from specially licensed farms, but reporters from *Next*, a local magazine, discovered the rules being circumvented.

Since 1997, when 18 people were infected with bird flu and six died, there have been numerous outbreaks. Avian flu is not only particularly virulent; it also has the rare capacity to cross barriers between species. But it is hard to transmit. Well-cooked chicken is safe. In the past, it has been relayed through handling and poor sanitation, both issues of concern in Hong Kong. Local television stations have begun running public-service advertisements urging people to wash their hands and to wear masks if they suffer flu-like symptoms.

The second precaution seems redundant; bird flu has not yet spread from one person to another. But it underscores the bigger fear: that the disease might mutate and become broadly infectious. Given the frequency with which the disease crops up in Hong Kong, the government may be justified in not taking any chances.


WORLD ASIA

Australia's foreign policy

G'day Asia

Jun 26th 2008 | CANBERRA
From The Economist print edition

Not yet mates with its neighbours

Get article background

AFP



Rudd: teaching Asia-literacy to the young

KEVIN RUDD, Australia's prime minister, wants to make Australia the "most Asia-literate country in the collective West". But many countries in Asia think Asia-literacy incompatible with membership of "the West". As hard as Australia tries to engage with the region next door, they still see it as an outsider preaching Western values to neighbours it does not fully understand. Now Mr Rudd has come up with two grand plans—for a political community and a nuclear non-proliferation body—that may throw this clash into even starker relief.

Since he led the centre-left Labor Party to power last November, Mr Rudd has clocked up some impressive foreign-policy achievements. He has withdrawn Australia's 500 combat troops from Iraq without damaging the country's alliance with America. On a visit to China in April he managed to raise concerns about Tibet in fairly blunt terms, and yet to leave relations apparently unscathed. And he seems to have soothed fears in Tokyo, for the time being at least, that he had grown too enamoured of China at Japan's expense.

The smooth ride is now striking a few bumps. Just before he left for a visit to Japan in early June, Mr Rudd proposed the formation of a new regional body. He described it as an "Asia-Pacific Community" that would include America, China, Japan, India, Indonesia "and the other states of the region", and focus mainly on security. But it remains unclear precisely what Mr Rudd has in mind, and which countries are included in his vision. Meanwhile he has dispatched Richard Woolcott, a veteran Australian diplomat, to take soundings about what he calls "this unfinished regional business".

Five days later in Kyoto, Mr Rudd declared that Australia would set up an international commission on nuclear non-proliferation and disarmament. This body would report to a conference of nuclear experts Australia will convene in 2009, ahead of a review of the Nuclear Non-Proliferation Treaty due in 2010. Gareth Evans, a former Australian foreign minister, and head of the International Crisis Group, a think-tank, will co-chair the commission. Mr Rudd wants a Japanese to join him.

Initial responses to Mr Rudd's plans from Japan and others in the region have been guarded. Some welcome his idea to bring China, India and Japan into one grouping with America. But his suggestion that the new body model itself on the birth of the European Union has aroused suspicions. Since no one is contemplating that degree of regional integration, critics argue that this was a tactical mistake if he expects Asia to take his plan seriously. Moreover, in his bid to redesign the region's architecture, Mr Rudd has left unclear the future of bodies, such as the Association of South-East Asian Nations and the East Asia Summit, that Asians have founded themselves. He suggests they may become "building blocks" for his more expansive Asia-Pacific Community. Sniffy Asians will surely see that as presumptuous.

Allan Gyngell, head of the Lowy Institute, a Sydney-based think-tank, is sceptical of Mr Rudd's "big union" approach for the region. But he argues that Mr Rudd is right to look for new models: the current architecture, he says, is a "mess", with too many forums no longer suited to the new challenges posed by the rise of China and India. Martine Letts, a Lowy arms-control expert, gives Mr Rudd credit for drawing on earlier Australian initiatives against the spread of nuclear and chemical weapons. But she worries that his proposed nuclear commission could leave Australia biting off more than it can chew.

The thread linking Mr Rudd's plans seems to be China, a country he knows intimately. Both initiatives are

partly ways of defusing regional tensions that may follow China's rapid growth as both an economic and a nuclear power. Australia last ventured into Asia's regional architecture 19 years ago when it co-founded the Asia Pacific Economic Co-operation forum, or APEC, a body that does not include India and passes only non-binding resolutions. To confound the sceptics, Mr Rudd's proposed institutions would need not just to match APEC's longevity, but to improve on its record as an ineffective talking-shop.

Turkmenistan

Still a prison

Jun 26th 2008 | ALMATY
From The Economist print edition

Under Turkmenbashi's shadow

WHEN Saparmurat Niyazov, Turkmenbashi or father of all the Turkmen, died of heart failure in December 2006, there was guarded optimism that better days might lie ahead for his benighted country. A year and a half later, assessments are at best mixed. This week the European Union and Turkmenistan held their first "human-rights dialogue" in the Turkmen capital, Ashgabat. Amnesty International, a human-rights lobby, marked the event with a report sharply critical of the Turkmen authorities and describing the human-rights situation in the country as "appalling".

In truth the initial optimism was partly based on the depressing recognition that things could hardly get any worse. Turkmenistan had been Central Asia's North Korea, albeit minus the nukes. Mr Niyazov, a long-serving president-for-life, was infamous for his bizarre personality cult and frequently changing hair-colour. His repressive regime kept a country of some 5m people in international isolation, allowing very few to travel.

Amnesty does acknowledge some improvements under Mr Niyazov's successor, Gurbanguly Berdymukhammedov, previously Turkmenistan's health minister. Several political prisoners have been freed; the right to ten years of education has been restored; pension payments eliminated or reduced two years ago have been reinstated; and some restrictions on internal travel have been eased. But there is less to some of this than meets the eye. Prisoners were freed by presidential pardon, not through a transparent judicial process. Access to the internet has been broadened, but websites covering human-rights violations or criticising government policies have been blocked more thoroughly.

Some foreign governments take a much more upbeat line—perhaps in part because of Turkmenistan's appeal as an energy treasure-house, whose reserves of natural gas are estimated to be the world's fourth-largest. Some have "dreamlike" expectations, says one Western diplomat. In this analysis, change will of necessity be gradual, since the government cannot address all shortcomings at the same time. Reforms in education and health, for example, will take a generation, because of a shortage of qualified people.

The same diplomat says the atmosphere in Ashgabat has been transformed. The Turkmen authorities no longer refuse to talk about sensitive issues. They try to answer questions openly. Mr Berdymukhammedov has also taken steps to end the country's isolation by making friends with neighbouring countries, such as Azerbaijan and Uzbekistan, with whom relations had been virtually frozen.

Delegations from international oil and gas companies and foreign governments have stampeded into Turkmenistan over the past year and a half. Political and business leaders from America, Russia, China and the European Union are impatient for a faster opening up. Ensuring their respective countries' energy security with Turkmen gas is usually a higher priority than human rights.

Aware of these immense business interests, Amnesty's report cites a Turkmen activist who says that many diplomats are too easily fobbed off with imitations of reforms rather than the real thing. This allows their countries to do business with the authorities without having to worry about being blamed for co-operating with a repressive regime. But Michael Denison, an expert on the country at Britain's University of Leeds, points to another reason for the lack of pressure on foreign governments. Turkmenistan, he says, is a desert society that has traditionally been apolitical and has lacked an urban intelligentsia and sense of nationalism. So there is no pressure from below. That is a relief not just to Turkmenbashi's successor, but to his foreign suitors as well.

The Philippine ferry disaster

Those in peril

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Not for the first time, navigating the archipelago by ferry proves deadly

THE shipping industry in the Philippines put another big blot on its abysmal safety record when the ferry *Princess of the Stars*, carrying 862 passengers and crew, sank during a typhoon in the central Philippines on June 21st. By the middle of the week rescuers had found 48 survivors. But 70 bodies had been recovered and 744 people were still missing. The authorities had little hope of finding any more alive. It will probably turn out to have been the most deadly maritime accident in the Philippines for 20 years.

The route taken by the 24,000-tonnes *Princess of the Stars* from Manila heading for the central city of Cebu took it straight into the path of the approaching Typhoon Fengshen. The coastguard received a signal saying the ship had engine trouble and that it had run aground just off the island of Sibuyan. Survivors said that the order to abandon ship was given, but that the vessel capsized shortly afterwards in high winds and rough seas.

An official inquiry will focus on the captain’s decision to sail into the teeth of an oncoming storm and the coastguard’s decision to allow the voyage. It will also examine the seaworthiness of the vessel and the competence of its crew. The owners, Sulpicio Lines, said the vessel was only 24 years old (positively new, by Philippine standards) and that it met all the safety requirements.

The domestic shipping industry is vital to the economy of the archipelago, but its history is one of lethal mishaps. In 1987 the world’s most deadly peacetime shipping disaster occurred in the central Philippines, when another ship owned by Sulpicio Lines, the *Dona Paz*, sank with the loss of more than 4,000 lives. The rules governing shipping safety are comprehensive, but they are often weakly enforced and circumvented by corruption. Official encouragement of competition on domestic routes in the 1990s prompted owners to buy newer and bigger ships. But since then the advent of cheap air travel has creamed off the highest-paying passengers. The Philippines provides about one-quarter of the world’s merchant seamen, but the best officers and crew are lured away by the pay offered by foreign shipping lines.

Human failings aside, no one can legislate for the weather. About two dozen typhoons or weaker storms hit the country every year. Apart from sinking the *Princess of the Stars*, Typhoon Fengshen left more than 700 dead or missing in various parts of the Philippines.

Zimbabwe

An election with only one candidate

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From The Economist print edition

AP



Robert Mugabe forced his rival out of the race. But opposition to him, especially across Africa, is mounting. He may be less secure than he looks

AFTER weeks of orchestrated state-sponsored violence, Zimbabwe's battered opposition decided not to take part in the presidential run-off scheduled for June 27th. Though the Movement for Democratic Change (MDC) and its leader, Morgan Tsvangirai, insisted until a few days before the poll that they would not pull out, they conceded on June 22nd that elections could not be remotely fair in the circumstances. Mr Tsvangirai said he could no longer ask Zimbabweans to cast their vote "when that vote could cost them their lives". Fearing for his own safety, he took refuge in the Dutch embassy in Harare, the capital; some 300 of his supporters later did the same at South Africa's embassy.

So President Robert Mugabe looks sure to win another term. Yet the crisis is far from over. Despite Mr Tsvangirai's withdrawal, government-organised violence against people suspected of supporting him has only intensified. The authorities said they still planned to hold the election. But criticism from Africa and beyond began to mount faster than before. Mr Mugabe is far from home and dry.

The MDC won the first round of an election at the end of March for both the presidency and for Parliament, snatching a majority from the ruling ZANU-PF in the lower house for the first time since independence in 1980. It also claimed to have won the presidential ballot outright, but official results called for a run-off.

Since then, the MDC has been the victim of unbridled retaliation. More than 80 of its supporters are reckoned to have been killed, 10,000 of them injured, twice as many homes destroyed, and more than 200,000 people displaced. Human Rights Watch, a New York-based monitoring group, has documented a campaign of systematic state-sponsored retribution and terror against lawyers, journalists and civic organisations as well as people suspected of supporting the MDC. Though isolated incidents of retaliation by the opposition have been reported, independent observers say that ZANU-PF's militias have abducted, tortured, murdered and raped on a grand scale.

Last week the wife of Harare's new MDC mayor, Emmanuel Chiroto, was abducted with her four-year-old son. He was freed unharmed but she was beaten to death. Terror first meted out in rural areas that were once ruling-party strongholds has spread to the cities, where the MDC has long been popular. Fearful

residents are being forced to display ZANU-PF regalia and attend "re-education" meetings, often deep into the night.

Many opposition rallies were banned. A court overturned a police ban and allowed the MDC to hold a rally in Harare on June 22nd. But thousands of government-backed youth militias armed with iron bars and guns blocked the road to the grounds where the rally was to take place, chasing and beating people who tried to gather. Mr Tsvangirai was detained several times on the campaign trail. Tendai Biti, his party's secretary-general, has been thrown behind bars, charged with treason and denied bail. The party says that over 2,000 of its supporters, including hundreds of its polling agents, are being detained.

Despite Mr Tsvangirai's decision to pull out, the regime still seems determined to expunge every whiff of opposition—or at least make sure that, if negotiations ever begin, the MDC will be weaker. In the 1980s, Mr Mugabe's regime first killed many thousands of people in Matabeleland, in the west and south, before co-opting its then main rival party in a government of national unity. Mr Tsvangirai has so far refused to join a government led by ZANU-PF, on the ground that it clearly lost the poll in March, even though the playing field was heavily tilted against the MDC.

Mr Tsvangirai has called for a negotiated settlement and wants regional bodies, backed by the UN, to help manage a transition, which would be harder to arrange if the run-off went ahead. On June 23rd, for the first time, the UN Security Council castigated the regime for its violence against the opposition and said that the run-off on June 27th could not be free or fair (see article). This time, even South Africa, China and Russia, who in the past have blocked any discussion of Zimbabwe's politics in the Security Council, assented. Crucially, the UN body said that the results of the election's first round should be respected; this goes against the notion, promoted in the past by South Africa's president, Thabo Mbeki, of a negotiated settlement that would leave ZANU-PF and Mr Mugabe in charge.

Mr Mugabe told a crowd of supporters that only God could remove him from power. He has long ignored Western protests and targeted sanctions (consisting of travel bans and asset freezes) against him and some 130 of his closest colleagues, denouncing such pressure as imperialist and neocolonialist. But he is finding it increasingly hard to get away with murder.

Africa, which for so long has looked the other way as Mr Mugabe stole elections and has refused to criticise him, is turning against him. The Southern African Development Community (SADC), an influential club of 14 countries (including Zimbabwe), has in the past been paralysed by divisions over how to deal with the situation—and has sat back while Mr Mbeki led a mediation approach under the rubric of "quiet diplomacy". But those in the SADC who have wanted to tackle Mr Mugabe more robustly are gaining ground.

After Mr Tsvangirai's withdrawal, Zambia's president, Levy Mwanawasa, who currently chairs the regional group, said it was scandalous for the SADC to stay silent and that elections held in the present environment would "not only be undemocratic but [would] also bring embarrassment to the SADC region and the entire continent of Africa". He called for the poll to be postponed until it could be held in a free and fair fashion.

Old friends are fed up

The leaders of Botswana and Tanzania, which currently chairs the African Union, are getting impatient too. Even Angola, a long-time ally, has called on Mr Mugabe to stop the violence. Of Zimbabwe's close neighbours, only Mozambique and Namibia have so far stayed silent. A host of other prominent Africans have denounced the election and condemned the violence. At an emergency meeting on June 25th a committee of the SADC that deals with security and includes Tanzania, Angola and Swaziland publicly doubted the legitimacy of the election's outcome.

South Africa remains by far the most influential country in the region and in the continent. Though Mr Mbeki refuses to condemn Mr Mugabe outright, the ruling African National Congress (ANC) says it is "deeply dismayed by the actions of the government of Zimbabwe, which is riding roughshod over the hard-won democratic rights of the people of that country". It has called for the run-off, whose legitimacy it sees as already "severely compromised", to be suspended in favour of negotiations. Jacob Zuma, the ANC leader likely to succeed Mr Mbeki as the country's president next year, is far more hostile to Mr Mugabe. Mr Mbeki, whom the SADC mandated last year to mediate between Zimbabwe's opposition and ruling party, flew to Harare before Mr Tsvangirai's decision in a last-ditch effort to get both sides to talk and to avoid a run-off—and still hopes for a negotiated deal; his team remained in Harare.

But civil organisations in South Africa are being more forthright than the government. The Congress of South African Trade Unions (COSATU), which is allied to the ANC and is a long-time critic of Mr Mugabe, is organising demonstrations that may include a temporary blockade of South Africa's border with Zimbabwe, where much of the country's imports are transported. It also called on trade unions and "progressive citizens" around the world to isolate Mr Mugabe and his government by not letting him set foot in their countries and refusing to serve him in airports, restaurants or shops. COSATU has asked governments in the region to refuse to have dealings with him, except to work towards a fair election.



Cricket South Africa, the country's official body, which has previously defended Zimbabwe from sporting isolation, announced on June 23rd that it had suspended its ties with Zimbabwe's cricket union. That will hurt more than Britain's removal of Mr Mugabe's knighthood. More than 90 journalists from a large South African media group, Naspers, petitioned the company's board after it transpired that a subsidiary of the group had printed material used by ZANU-PF.

Words into action, then?

The big question now is what the region's leaders will do if Mr Mugabe simply ignores them. If he goes ahead with the run-off and declares himself the winner, will neighbouring states recognise him as president and ZANU-PF as the government?

Botswana has hinted that it may not, especially if the SADC's election observers, who have previously turned a blind eye to rigging, declare the poll unfair. The rest of the region will have to be equally robust if Mr Mugabe is to be coaxed into negotiating with the MDC and its leader.

No less important is the African Union, which includes all 53 of Africa's countries and is due to meet for its annual summit, this time in Egypt, on June 30th. The leader of Africa's most populous country, Nigeria, has joined the condemnation of Mr Mugabe. A score of Africa's past presidents and prime ministers, this week including Nelson Mandela, have also spoken out.

So far, Mr Mugabe and his circle have not seemed to care what the world thinks. He says he will never allow the opposition to take over, threatens war if it did, and has so far refused to meet Mr Tsvangirai. The growing outrage in Africa has hitherto been confined to words. But if his neighbours begin truly to isolate Mr Mugabe, he will find it harder to survive, whatever the result of a one-man election contest.

The United Nations and Zimbabwe

Crimes against humanity

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What international bodies can, and cannot, do about Zimbabwe

MORGAN TSVANGIRAI, Zimbabwe's opposition leader, has called for the United Nations to send peacekeepers to his ravaged country. Others, including Jacob Zuma, leader of South Africa's ruling African National Congress, have begun calling on the "international community" to intervene. At the same time, the International Criminal Court (ICC) is being urged to investigate Zimbabwe's president, Robert Mugabe, for crimes against humanity. What is the legal basis for such moves, and how likely are they to take place?

Under the new concept of an international "responsibility to protect", adopted unanimously by world leaders (including Mr Mugabe) at a UN world summit in New York in 2005, intervention in a state's internal affairs is permitted in the event of genocide, crimes against humanity, ethnic cleansing and other mass atrocities, if that state is unwilling or unable to protect its own people. Indeed, R2P, as it has become known in diplomatic jargon, places an actual obligation on governments, usually acting through international bodies such as the UN, to intervene in such cases.

Natural disasters and human-rights violations on a less gross scale do not qualify, which is why such an intervention was not possible in Myanmar after May's cyclone. But it is arguable that Zimbabwe could qualify. Under the ICC's Rome statute, crimes against humanity are defined as inhumane acts, such as torture or murder, that are "widespread or systematic …intentionally causing great suffering and serious injury to the body or to mental and physical health". That seems to fit the pattern of systematic rape, torture, murder and other atrocities being perpetrated against Mr Tsvangirai's supporters.

But qualifying for R2P is only the first (and easiest) step. Any intervention involving sanctions or armed force requires authorisation by the UN Security Council, meaning no opposition from any of the council's five permanent veto-wielding members: Britain, China, France, Russia and the United States. For the council to have issued a statement for the first time condemning Zimbabwe's government for the violence and intimidation surrounding its presidential elections is regarded as a tour de force. The idea that it may actually agree to send in UN peacekeepers is considered by many to be ludicrous.

But it was once regarded as ludicrous that the council would ever agree to refer Darfur to the ICC for investigation—yet it did. Almost everyone said that China, with its close ties to Sudan, would never agree to send UN peacekeepers to Darfur—yet it did. More recently, it was assumed that the Security Council, on which South Africa holds a two-year seat, would never say boo to Zimbabwe over the conduct of its elections, surely an internal matter if there ever was one. Yet it has.

So the "presidential statement" issued by the Security Council on June 23rd was something of a triumph, given South Africa's presence and China's and Russia's traditional reluctance ever to intervene in a state's internal affairs. For, unlike council resolutions, such non-binding presidential statements can be adopted only unanimously. And, though it was a watered-down version of a British draft reportedly calling for Mr Tsvangirai to be regarded as Zimbabwe's legitimate president, it contained some tough language, squarely blaming Zimbabwe's government for the humanitarian and political crisis at a time when Thabo Mbeki, South Africa's president, was still refusing to do so.

True to form, the UN's recently revamped Human Rights Council, based in Geneva, which might have been expected to be taking a keen interest in what is going on in Zimbabwe, has not even raised the issue. Unlike its discredited predecessor, the Commission on Human Rights, it has the power to call for an emergency session to address a particularly egregious violation of human rights, for example in Zimbabwe. All that is required is for one-third of the council's members to back the move. But not a single country, not even Britain, has even suggested putting forward such a motion; the United States is not a member.

In theory, calling an emergency session on Zimbabwe should not be so difficult. Of the council's present 47 members (elected for three-year terms on a rotating basis by the UN General Assembly), 23—just one shy of an absolute majority—are deemed "free" by Freedom House, an American think-tank, on the basis of their civil-liberties and political-rights records; ten (including China, Pakistan, Russia and Saudi Arabia) are judged "not free", with the rest considered "partially free". But with its 16 members, the Organisation of the Islamic Conference, supported by 13 African members, has a stranglehold over the council. Together, they repeatedly fend off moves to look into the human-rights records of Muslim or African countries.

As for an eventual indictment at The Hague by the ICC—which is backed by the UN but independent of it—this, too, is tricky. Though the atrocities being perpetrated by Mr Mugabe and his army, police and party militias could well be considered crimes against humanity and may therefore fall within the court's jurisdiction, Zimbabwe is not a party to the court. So the UN Security Council would have to refer Zimbabwe to the ICC, a step that China or Russia may be expected to veto. But as the Beijing Olympics draw near, China just may be willing to abstain on such a resolution, as it did over Darfur. And Russia, not wanting to be left out on a limb, may agree to do the same. So Mr Mugabe is not out of the court's sights yet.

The Palestinians

Ever divided

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The oldest Palestinian party tries to heal its divisions, but new ones fast emerge

THE charter of Fatah, the more secular of the two main Palestinian political parties, says that unless there are “exceptional circumstances”, a general party congress must be held every five years. The last one was in 1989. But this year may at last see an exception to the exceptional. In the past few months the party has been holding district elections for delegates to the congress. Officials say these will be over in another two months, but no date has yet been set for the congress itself.

If and when it is held, it could do much to determine the Palestinians’ fate. Fatah’s election defeat in 2006 by its Islamist rival, Hamas, owed a lot to splits in Fatah between a cabal of leaders clinging to power and various factions of a “young guard” that is already far from young. If a congress could resolve this, push corrupt time-servers aside and modernise the party, loyalists hope Fatah will defeat Hamas next time there are elections, and so get the Palestinians properly back on the track of peace with Israel, which Hamas officially rejects.

But the congress is far from a done deal. Supposedly young guards, such as Qaddura Fares (aged 46) and Radi Jirai (57), complain that the 21-member central committee is using rules that date back to when most Fatah members were in exile to rig the congress in its favour by restricting the numbers of delegates and applying a complex system of quotas. Azzam Ahmed, a close associate of Mahmoud Abbas (also known as Abu Mazen), the Palestinian president and Fatah’s head, dismisses such talk as agitation by allies of Marwan Barghouti, a Fatah leader in an Israeli jail whom opinion polls consistently reckon to be the most popular among voters. Each side blames the other for the delays.

Mr Barghouti’s allies certainly fear that Ahmed Qurei (Abu Alaa), seen as the old guard’s leader, is manoeuvring to succeed Mr Abbas as Fatah leader and thence as president. Having won the post of chief peace negotiator last autumn after a spell in obscurity, Mr Qurei has positioned himself well with Fatah’s key allies, Israel and America. But his reputation and electability among Palestinians are abysmal, which is bad for Fatah and good for Hamas.

Still, elections may not happen, and if they do they may be even more of a circus than the Fatah congress. Mr Abbas’s term was due to end next January, but he has extended it by means of a decree tying the presidential poll to a parliamentary one, due a year later. Hamas does not recognise the decree, just as it does not recognise the interim government that Mr Abbas appointed in its stead after a bloody showdown between Hamas and Fatah forces in Gaza a year ago. Hamas argues, with some justification, that Mr Abbas contravened the constitution on both counts. And without Hamas’s acquiescence there cannot be elections in Gaza. In the West Bank, where Mr Abbas still holds sway and where his security forces, with Israel’s help, have practically rooted Hamas out, he can expect a Fatah win even if the party remains sclerotic. But it would be a hollow victory and do little for his successor’s legitimacy.

Besides its internal power struggles, Fatah is also starting to divide over two ideological issues. One is reconciliation with Hamas. Among the older generation of Fatah, hatred of Hamas runs deep. Leaders such as Mr Barghouti, who fought side by side with Hamas militants during the second *intifada* that started in 2000, are more likely to seek to build bridges, says Khalil Shikaki, a Palestinian pollster. After a year of extreme hostility following Hamas’s takeover of Gaza, Mr Abbas seemed to soften this month by dropping some of his preconditions for talks between the two parties. But he may merely be dangling the prospect of a thaw with Hamas, to try to scare Israel into making more concessions in its faltering peace talks with him.

Those talks are the second point of dispute. The old guard have a personal stake in them; they obtained their return from exile and built their subsequent careers by agreeing to work towards a peace deal involving separate Jewish and Palestinian states. Some others, however, have come to believe that such a deal is no longer reachable. Mr Jirai, for instance, thinks it is time for Fatah to give up and start campaigning for a “one-state solution”. Unlike what Hamas aims for, he says, this would not be an

Islamist state but a secular, democratic one where Muslims, Christians and Jews have equal rights.

At the last meeting of one of Fatah's inner councils the one-state solution was discussed for the first time since 1974—another reason why the old guard will try to make sure the congress is run their way—and why it may get delayed yet again.



Nigeria

The slippery business of oil

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Why foreign oil companies find it harder than ever to operate in Nigeria

INTERNATIONAL oil companies have never considered Nigeria a most hospitable operating environment. Long burdened with eye-watering corruption and political instability, as well as two years or so of violent attacks from local militants demanding a bigger share of the country's oil revenues, oil workers thought conditions could not get much worse for them.

But they have. Even with record oil prices, some companies are hinting that they may leave as they grapple with the double squeeze of increasingly effective militant attacks and a government hungry to secure a larger slice of the oil profits.

Last week, militants in speedboats carried out their first notable attack on an oil facility in deep waters off the Nigerian coast, previously considered beyond their reach. The attack on a giant floating production, storage and off-loading vessel, known as an FPSO, some 120km (75 miles) out to sea, forced the operators, Royal Dutch Shell, to halt production from its Bonga oilfield, blocking off some 220,000 barrels per day of oil, or around 10% of Nigeria's crude production.

Security had already emerged as the chief reason for the rapidly dwindling operations on land: Christophe de Margerie, boss of Total SA, says his company has been thinking twice about Nigeria because of the violence. Just to hammer that point home, hours after the Bonga attack, unidentified youths blew a hole in an onshore Chevron pipeline, cutting production by another 120,000 barrels a day. These two attacks ensured that oil prices stayed high at around $140 a barrel this week, dampening hopes raised at meeting in Saudi Arabia that an increase in Saudi production would bring the price down.

But it is not only the insurgents who are prompting the reassessment. It is Nigeria's government. Its reinterpretation of contracts linked to the much more lucrative offshore blocks has in any event forced companies to take a hard look at the disadvantages of operating in Nigeria.

In late May, President Umaru Yar'Adua told his government to recoup $1.9 billion from Exxon Mobil and Royal Dutch Shell in revenue and taxes on offshore projects. The government accuses oil companies of reaping excessive profits and benefiting unfairly from agreements made with long-departed military regimes. But analysts who have seen the documentation say Mr Yar'Adua's administration is rewriting the rules and applying them retroactively.

Several governments around the world have been openly changing the rules under which oil companies operate to get a bigger cut of the revenues. But the Nigerian government's more “questionable reinterpretation” of oil contracts is a big worry, says a Lagos-based analyst.

Offshore production, mostly in the deep waters of the Gulf of Guinea, is highly lucrative for oil companies such as Shell and Exxon. Favourable offshore contracts yield about 20% profit to oil companies on every barrel, compared to only around $3 on an onshore barrel under a formula that is less affected by high oil prices. Shell said recently that the government's actions have “potential implications” for investor confidence in Nigeria.

With oil companies making record profits, no one expects them to beat a retreat just yet. Much of the latest skirmishing is part of a larger dispute over the government's reluctance to stump up its full share of investment in the joint ventures under which foreign firms operate. The companies are being squeezed by the government for money owed for the upkeep of the ageing infrastructure needed to keep the industry going. In a rare outbreak of harmony after weeks of quarrelling, the companies agreed to lend the government $3.5 billion, which it promises to invest in the joint ventures.

Still, Shell received another recent blow from the government when Mr Yar'Adua announced the

cancellation of the company's operating rights in an onshore region called Ogoniland. Shell ended its production there in 1993 after local protests culminated in the hanging of an environmental campaigner, Ken Saro-Wiwa, by the military regime of Sani Abacha. So this announcement was mainly symbolic.

Mr Yar'Adua's motive may have been to exploit local anger against the oil industry and score some easy political points. He certainly needs some, having accomplished little else in his first year in office. This week his peace initiative for the Delta, already rejected by the most active militant group, suffered a further setback when another armed group said it would boycott a peace summit due next month.

None of this makes the climate friendly for foreign oil firms. More than a quarter of Nigeria's normal production of 2.5m barrels a day is kept off the market by militant violence. In a seemingly hopeful development, Nigeria's largest militant group, the Movement for the Emancipation of the Niger Delta (MEND), which claimed responsibility for the Bonga attack, has called a "unilateral ceasefire" starting on June 25th. But this is not the first time MEND has called off attacks, and it remains opposed to government-organised peace talks. So world oil prices could soar again on the back of Nigeria's instability.

France and the European Union presidency

Nicolas Sarkozy's European apotheosis

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Illustration by David Simonds



Most big countries' six-monthly stints in the European Union presidency prove disappointing. Will France's?

THE evening before it starts, the Eiffel Tower will be lit up in a dazzling burst of blue and yellow, the colours of the European Union flag. Leaders of all 27 EU members, plus 17 Mediterranean countries, are invited to a jamboree on the eve of Bastille Day to launch a new Union for the Mediterranean. No fewer than ten international summits will take place over the six months. In short, the French have prepared grand plans for their EU presidency, which begins on July 1st, to show that France is back in Europe, and that Nicolas Sarkozy is a dynamic leader who can get things done.

And then the Irish upset things. Although the French, like others, are publicly playing it down, there is no disguising their dismay with Ireland's voters, who said no to the Lisbon treaty on June 12th. They fear that picking up the pieces, as others had to after the French and Dutch voted against the previous version of this treaty in 2005, will cloud their moment in the sun (a delay in Lisbon also means theirs will not be the last six-month presidency: the Czechs take over next January). EU leaders have agreed to wait until October to hear from the Irish government what it plans to do. Meanwhile Mr Sarkozy insists that ratification by others must go on (see article).

Characteristically, Mr Sarkozy has himself decided to rush to Dublin on July 11th, in order to "listen". Indeed, he hopes to turn the distraction over Ireland into an opportunity, by getting EU leaders to work harder on matters that ordinary voters care about, such as the environment and energy. A Eurobarometer poll this week finds that only 52% of EU citizens consider membership to be a good thing for their country; in France, the figure is just 48%. Mr Sarkozy's popularity at home has collapsed. And a poll by BVA suggests that only 31% of the French think he will be able to relaunch Europe.

Hence Mr Sarkozy's determination to press ahead with his pet projects. The Irish no, he argues, is "a rejection of a certain Europe that is too technocratic, too abstract, too distant." His plans, which he will unveil in a speech to the European Parliament on July 10th, will have four main elements—energy and the environment, immigration, defence, and agriculture—and one big idea, the Mediterranean Union.

The splashiest single event of the presidency will be the Mediterranean summit in Paris on July 13th. This will mark the official launch of a project that Mr Sarkozy has championed ever since the day he was elected. He originally had a grandiose vision of a union that would "overcome all hatreds to make way for

a great dream of peace and a great dream of civilisation”. But he has since been forced by hostility from Germany to water down the vision. It is now an EU project, which will merely take over from the old “Barcelona process”, albeit in theory giving “northern” and “southern” members more equal status. It has more modest goals, too: eg, cleaning up sea pollution and developing solar energy.

Does this mean the Mediterranean Union’s longer-run ambitions have been dumped? Not at all, argues Alain Leroy, the French diplomat in charge of setting it up. “The EU started with the community for coal and steel,” he recalls. If, for instance, the Syrian president and Israeli prime minister, both of whom are due to attend the July summit, actually meet during the event, this could constitute “some contribution to the peace process”.

Yet the summit is causing prickly reactions. Most Arab countries are unhappy with Israel’s participation. Libya’s leader, Muammar Qaddafi, has called the plan an “insult” and said he will not come—although the French think he may yet turn up. The Algerians and Turks are hesitant (Turkey has long suspected a plot to derail its planned EU membership). And the entire project is dismissed by some in Berlin and Brussels as no better than a diversion of EU cash to promote French *gloire*.

There may be more enthusiasm for other French plans. The most pressing, if hardest to deliver, is to secure agreement on curbing carbon emissions, ahead of next year’s Copenhagen world summit. Europe wants to set an example. A recent Franco-German deal on car emissions was a step forward. But there are widely differing views, particularly with new EU members, over how to measure emissions and share the clean-up burden. The French also want an EU response to high energy prices. They will present a plan to cap value-added tax on fuel in October, even though the European Commission and other governments are fiercely against it.

In contrast, the finishing touches are being put to Mr Sarkozy’s “immigration pact”, due to be unveiled in Cannes on July 7th and 8th. The idea is to agree not to conduct mass regularisation of illegal immigrants, to strengthen EU border controls and to harmonise procedures for repatriating illegal immigrants. There are still disputes over a common asylum policy. But some contentious elements, such as an “integration contract” for new immigrants, to which Spain objected, have been dropped.

On joint European defence, the French will be wary of pushing ahead too far before a possible second Irish vote. Fears that this could compromise Ireland’s neutrality were played up by the no side. The American presidential election in November makes things awkward, too, since Mr Sarkozy wants American blessing for joint European defence before he will reintegrate France fully into NATO. Discussions on farming, while a bit more open than under President Jacques Chirac, will quickly turn into a dispute with liberal free-marketeers over how best to adapt farm support at a time of soaring food prices.

So much for the official agenda. EU presidencies often turn out to be dominated by unforeseen crises. Iran may be one such. These will test France’s skill in managing not only disputes among the 27, but with the European Commission, which the French see as too liberal economically and insensitive politically. Recriminations over the Irish no have revealed the tensions yet again. After the vote, José Manuel Barroso, the commission’s president, pleaded with Mr Sarkozy to stop making Brussels a scapegoat. Days later, to consternation in the commission, Mr Sarkozy publicly blamed Peter Mandelson, the trade commissioner, arguing that his offer to cut farm tariffs in the Doha trade talks had worried Irish voters. Mr Mandelson is ostentatiously staying away from an Elysée dinner next week.

In the end, Mr Sarkozy will be anxious to claim some concrete achievements on his watch. His term as French president has so far been thin on likely results—and one he has claimed was the Lisbon treaty, whose future is now in doubt. A well attended Mediterranean summit would help. But a surprise initiative cannot be ruled out—one reason why, even before his presidency begins, most other EU members are decidedly jittery about the next six months.

The Lisbon treaty

The ratification game

Jun 26th 2008 | BRUSSELS
From The Economist print edition

Who has really done the deed?

EUROCRATS have been claiming ever since Ireland's no vote that 19 of the 27 European Union members have ratified the Lisbon treaty. The truth is fiddlier: strictly, the correct number is only ten.

In **Britain** Parliament approved the treaty just in time for the EU summit that began late on June 19th (the queen gave royal assent that morning). But formal delivery of beribboned parchments and wax seals to an archive in Rome has not taken place. On June 25th the High Court threw out a legal challenge to ratification by a Eurosceptic businessman, so this final step will now be taken. Ten other countries have already "deposited the instruments of ratification" in Rome; another five are about to do so.

The two trickiest ones left (besides Ireland) are Poland and the Czech Republic. **Poland's** parliament has passed the treaty, but the Eurosceptic president, Lech Kaczynski, is still pondering whether to sign it. The **Czech** lower house has approved the treaty, but senators have asked the constitutional court to vet it—a ruling is due in the autumn. Only then will the Senate (which contains some tough Eurosceptics) vote. The government is broadly pro-Lisbon, but the president, Vaclav Klaus, is deeply Eurosceptic. Yet he would be expected to sign a bill duly approved by parliament.

In **Sweden** a parliamentary vote is expected in the late autumn. The opposition Social Democrats must vote with the ruling coalition if the treaty is to pass: they have sent mixed signals. **Finland** approved the treaty on June 11th and a presidential signature is expected soon.

Passing laws takes time in **Belgium**, a complicated place. Five of the country's eight parliamentary assemblies have ratified. Two more were due to vote late this week. The Flemish parliament wants (as always) fresh concessions of power from the national level. Yet the result will be yes in the end. In the **Netherlands**, the lower house of parliament has passed the treaty, and a vote in the Senate is due on July 8th.

The president of **Germany** is waiting to sign the law, which sailed through parliament. But formal ratification is stalled as the constitutional court considers a legal challenge by a member of the Bundestag. In Spain and Italy, elections delayed ratification. In **Italy**, approval is expected shortly. **Spain's** lower house was expected to vote late this week, and the Senate will do so after its summer break. The ruling party in **Cyprus** is against Lisbon, but a parliamentary vote on July 3rd should pass it anyway.

Yet the treaty cannot come into effect unless **Ireland** ratifies, which will require it to win a second referendum. And that is what the Eurocrats are counting on.

Turkey and the army

Paper soldiers

Jun 26th 2008 | ANKARA AND ISTANBUL
From The Economist print edition

A leaked document exposes the army's campaign against the ruling party

ON THE evening of March 4th, a black Mercedes swept into the Ankara headquarters of Turkey's land-forces command. It was carrying Osman Paksut, the second-highest judge on the constitutional court. His assignation with the land-forces commander, General Ilker Basbug, was meant to be secret—all the security cameras were cut off as he entered and left the building—for it came at a highly delicate moment. The secular opposition had just petitioned the court to overturn a law passed by the ruling Justice and Development Party (AKP) to allow women to wear the Islamic-style headscarf at universities.

Less than four weeks later, on March 31st, the court said that it would take a case brought by the chief prosecutor to ban the AKP and 71 named officials, including the prime minister, Recep Tayyip Erdogan, and the president, Abdullah Gul. The case rests on the claim that the defendants are trying to impose *sharia* law in Turkey.

This decision makes the meeting between Mr Paksut and General Basbug, who is tipped to replace Yasar Buyukanit as chief of the general staff when he retires in August, all the more suspicious. Indeed, it reinforces the view of many Turks that lying behind the case is an attempt by the generals to use the courts to overthrow Turkey's mildly Islamist government in a "judicial coup". This follows the generals' threatened "e-coup" of April 2007, when they tried unsuccessfully to stop Mr Gul becoming president.

Few Turks would have known of the meeting had news of it not been broken by a small daily newspaper, *Taraf*. Since its launch last November under the motto "to think is to take sides", *Taraf* (which means side in Turkish) has published a string of stories exposing the army's efforts to undermine the AKP government. It has thus become even bigger than "the most honest and prestigious newspaper" that was the dream of its 39-year-old owner, Basar Arslan. Amid speculation that the army may be preparing a direct coup, *Taraf* has become a standard-bearer for the rising numbers of young and increasingly vocal Turks who say the people, not the generals, should determine the country's future. Last week 7,000 of them gathered in central Istanbul in a rally against coups, many of them brandishing *Taraf*.

The paper, whose news coverage remains spotty, made its biggest splash so far when it recently published a document detailing alleged plans by the general staff to mobilise public opinion against the government and its sympathisers. The blueprint was drawn up after the AKP was returned to power for a second five-year term in July 2007. In a limp rebuttal, the top brass said it had "not approved" any such document, but stopped short of denying its existence. Indeed, much of the paper's information comes straight from disgruntled "deep throats" within the army.

Such leaks have dented the army's image and fuelled debate over a possible rift within the high command. Internal divisions surfaced last year when *Nokta*, a weekly, published excerpts from the diary of a former navy commander in which he described two abortive coup attempts in 2004. Soon afterwards, the magazine was forced to close and its editor prosecuted for libel. Might *Taraf* suffer a similar fate?

Taraf is already a stronger institution than *Nokta*. "We are changing the rules the mainstream media work by in this country," declares Yasemin Congar, its combative deputy managing editor. Circulation, now at an average 24,000 copies every day, is growing. And this comes in the teeth of a smear campaign accusing *Taraf* of being financed by a powerful Islamist fraternity close to the AKP and of taking its orders from the United States.

Yet it would be easy to overstate the influence of *Taraf*, as indeed of civil society as a whole. "Turkish civil society barely has the strength to redirect major roads, let alone stop the generals from acting if they see it as in the national interest," argues Howard Eissenstat, a New York-based historian. "Moreover, the high regard for the military and the particular tone of Turkish nationalism suggest that public reaction to a hard coup would be more of a ripple than a wave." Then again, as Ms Congar noted in a recent column, "there are a few good men" in the army, whose view of Turkey's national interest tends to favour democracy,

and who will keep leaking information to *Taraf*.

Always the same winners

Jun 26th 2008 | BRATISLAVA
From The Economist print edition

Few care about crony capitalism when business booms and the euro is coming

ONLY two things in Slovakia matter to outsiders, cynics argue. One is that the country joins the euro smoothly next January—becoming the first country from the former Warsaw Pact to get in. The other is that the ruling left-nationalist coalition does not dismantle its predecessor's free-market reforms.

Life is a bit more complicated than that. Slovakia's finance minister, Jan Pociatek, is a guarantor of economic orthodoxy, but also at the centre of a scandal about the euro. The flamboyant minister is accused of leaking to an investment fund information about a planned revaluation of the national currency, the koruna, against the euro. The alleged leak, which Mr Pociatek denies, came to light after unusually heavy trading in the currency in the run-up to a 15% jump in the exchange rate that was announced on the evening of May 28th. It followed an informal meeting four days earlier between Mr Pociatek and tycoons from J&T, Slovakia's leading investment fund, on a yacht in Monaco.

Mr Pociatek pooh-poohed suggestions that he had discussed the issue with his hosts. A notable playboy by Bratislava standards, he insisted that he was there only to "see chicks" and talk about the Monaco Grand Prix. However, when asked at a press conference who had won the race, he could not remember.

Hobnobbing with market participants before one of the most sensitive moments in the country's 15-year financial history might be seen as unwise behaviour by Mr Pociatek, regardless of what was discussed. The central bank has launched an investigation; the opposition has put forward a no-confidence motion in parliament. The owners of J&T have fought back, accusing the government of treating them like "vermin".

After some hesitation, the country's populist prime minister, Robert Fico, backed Mr Pociatek, criticising him only for his "ostentation". Slovakia's flat tax, investment-friendly regime and sound public finances will survive. Yet the row highlights another feature of the country: the enduring ties between some of today's politicians and the magnates who made their fortunes from dodgy privatisations in the 1990s. Mr Fico insists that he likes financial groups as "a goat likes a knife". But a former finance minister, Ivan Miklos, notes that "their knife is at his throat".

Lech Walesa

History’s tentacles

Jun 26th 2008 | WARSAW
From The Economist print edition

Was Poland’s greatest trade union leader a secret-police informer?

AP



Anti-communist or stooge?

POLAND’S past has a long reach. An appeal court this week upheld the conviction of 14 policemen involved in killing nine miners protesting against martial law and the banning of Solidarity in 1981. And Lech Walesa, the trade union’s leader, whose contribution to the collapse of communism ranks with those of John Paul II, Ronald Reagan and Mikhail Gorbachev, faced allegations that he was once a secret-police informer.

The charge comes in a seemingly well-sourced, 780-page book by two historians working at the Institute of National Remembrance, the custodian of Poland’s surviving communist-era archives. Mr Walesa, they contend, was the informant known in the files as “Bolek”, recruited in 1970 and active until 1976. People on whom he snooped went to jail or lost their jobs, they claim. The circumstantial evidence, seen with a critical eye, is plentiful. But some note that the secret police habitually exaggerated and falsified records of their activities. Mr Walesa himself vehemently and repeatedly rejects the allegations as “lies” and says he will clear his name in court.

The flair he displayed in Solidarity’s heyday (he jumped, at least in legend, over a Gdansk shipyard wall to lead a strike there) and the guts he showed later under martial law (when he rejected all attempts by the communist regime to co-opt him) mean that many Poles would overlook a young man’s misjudgment. Polls give him high ratings for honesty.

What is harder to defend is his record as Poland’s first post-communist president from 1990 to 1995. He was erratic in manner, and surrounded himself with questionable advisers. Some say this was because the outgoing regime was blackmailing him to ensure a smooth switch from power to wealth—and back again. That is how the opposition Law and Justice party sees recent history: a conspiracy of ex-apparatchiks, spooks and dodgy businessmen, aided and abetted by weak-willed ex-dissidents. Discrediting Mr Walesa fits with a counter-attack against Civic Platform, the party that won last autumn’s election. Government figures dismiss the book; Law and Justice is promoting it. Their black-and-white world view leaves little room for human frailty, real or alleged.




Minorities in Germany

A Sorb story

Jun 26th 2008 | BAUTZEN
From The Economist print edition

The Turks may be more numerous and more prominent, but the Sorbs have been in Germany a lot longer

THE dateline above might have read Budysin. As with many towns in Lusatia, a region that straddles the states of Saxony and Brandenburg, Bautzen's German name has a Slavic alias. The same is true of many people. Germans in Lusatia are content with just one name, but Sorbs often sport two: Maria Matschie, head of a Sorbian publisher, is known as Marka Macijowa by her readers.

There are some 60,000 Sorbs spread along the River Spree, the remnants from a Slav migration that occupied land vacated by Germans 1,400 years ago. They are peaceable citizens—*königstreu* (loyal to king and country), as they like to say. The premier of Saxony, Stanislaw Tillich (Tilich), is a Catholic Sorb.

AP



Tillich, a premier Sorb premier

But now the Sorbs are angry. Since 2003 the federal government has cut by €600,000 ($933,000) its €8.2m annual funding for the institutions that sustain the Sorbs' culture (Saxony and Brandenburg contribute roughly the same again, as well as financing Sorbian schools). It briefly froze some funds. Some 500 Sorbs protested in Berlin in May, for the first time ever. "It is the duty of the state to help Sorbian culture survive," insists Ms Matschie.

Usually the German state favours integration, on the basis that otherwise Turks and other immigrants cannot be fully at home in Germany. But Sorbs are one of four national minorities whose distinctive identities have to be sustained. The federal government insists it is not wavering from this duty—merely economising a bit. Yet after a thousand years of relentless Germanisation, penny-pinching seems to many Sorbs like a final insult.

The Nazis believed they were Aryans who spoke a Slavic language by mistake. To rectify it, they dismissed Sorbian clergy and teachers. East Germany was only a little nicer. It set up the main cultural institutes, but destroyed scores of Sorb villages to get at Lusatia's coal deposits. The Sorbs' privileges were recognised in the treaty unifying Germany in 1990; a foundation was established to finance the institutes. Then came unemployment, a slumping birth rate and emigration by the young. All that "hit Sorbs harder", says Janina Krüger (Krygar), mother of the only Sorbian-speaking family in Germanised Wuischke (Wujezk), near Bautzen.



About half the Sorbs speak one of their two languages. But Lower Sorbian barely survives among older folk in Brandenburg. Prospects are better for 25,000 speakers of Upper Sorbian round Bautzen, mostly Catholics saved from assimilation by a quirk of history. Their villages belonged to a Cistercian nunnery that kept its faith after (Protestant) Saxony priced the land away from Bohemia in 1635. More than half the people of Crostwitz (Chroscicy) go to church weekly, a higher share than in the pope's home state of Bavaria, says Mirko Schmidt (Smit), head of a Sorbian primary school. Crucifixes with brightly gilded figures of Christ dot this tidy enclave. Catholic Sorbian identity "will survive for the next 100 years," says Dietrich Scholze-Solta, director of the Sorbian Institute.

Sorbs want to keep it all. Their two languages require two separate streams of radio programming, two newspapers (weekly in Lower Sorb) and a double edition of most books. Sorbs are heirs to a literary culture and a popular folklore, so they need a theatre as well. "Our numbers shrink, but the quality of our culture rises," says Benedikt Dyrlich, editor of *Serbske Nowiny*, the Upper Sorbian daily.

The cost of the Sorbs' life-support system dwarfs that of other national minorities. The Roma get no more than €1.6m from the federal government, and the Danes and Friesians of Schleswig-Holstein manage with less than €300,000 apiece. The federal auditor has accused the Sorb Foundation of wasting money and failing to evaluate its spending. Anyway culture and education should be for states, not the federal government. Yet Sorbs say this misses the point. The Danes have a mother country, and the Roma are dispersed. Sorbs are a nation without a state.

Most are happy to remain German citizens. Mr Scholze-Solta advises Catholic Sorbs to remain a "parallel society", a term that causes Germans conniptions when applied to Turks. Many dream that Lusatia can be a homeland where children are as fluent in Sorbian as in German. Budget cuts have roused Sorbs to defend their privileges but also their identity. "We will exist as long as we want to," says Mrs Krüger's husband. The government may have sharpened that desire.

Charlemagne

The unanimity problem

Jun 26th 2008
From The Economist print edition

The European Union cannot easily cope with a country that says no

Illustration by Peter Schrank



THERE was a whiff of a Mafia funeral about the latest summit in Brussels. Bosses in dark suits glumly patted shoulders and squeezed elbows as they mourned the Lisbon treaty's rejection by Irish voters a week earlier. The man receiving the most slaps on the back—Ireland's prime minister, Brian Cowen—was a picture of rumpled, jowly anxiety, like a hapless underboss summoned to explain a disaster on his watch. The sympathy was not feigned: most European leaders know they would struggle to win a referendum on Lisbon. But there was menace too, amid the mutters that the Irish government ran a poor campaign.

Mr Cowen pleaded for time to ponder what had gone wrong, and was granted it—for now. Leaders agreed to "consider the way forward" at their next summit in October. In further relief for Mr Cowen, his colleagues backed away from threats made by some to press ahead without Ireland. Such divisive talk was slapped down by Nicolas Sarkozy, the French president, who will take over the rotating European Union presidency on July 1st. The "European family" has 27 members, Mr Sarkozy said, and he would work to "keep the family together".

Yet there were still threats, some of them veiled. "There is a particular difficulty with our Czech friends," Mr Sarkozy murmured about the refusal of the Czech government to commit to ratifying the treaty until its constitutional court has vetted it. Mr Sarkozy added that it would be impossible to enlarge the EU any further without Lisbon. This is legally untrue, and Poland's prime minister called the linkage "unacceptable". But it is an effective political threat, even so. Voters in eastern Europe are keener on further enlargement than those in France or Germany (whose chancellor, Angela Merkel, agreed that enlargement could not continue without Lisbon).

At least Mr Cowen escaped without being forced to promise to hold a second vote on the treaty, with or without protocols declaring that it does not affect Irish laws on abortion, neutrality and other shibboleths. But for all that, he also left knowing that a second vote is the strategy favoured by most EU leaders. And in the meantime, those leaders are keeping themselves busy looking for somebody to blame. Some hardliners, especially in the European Parliament, accused Irish voters of ingratitude after years of EU subsidies. A former Danish foreign minister suggested that Ireland should now volunteer to leave the EU.

Others chose to find scapegoats among those they already dislike. The Belgian prime minister, Yves

Leterme, blamed the Irish editions of British tabloids for spreading “wild” stories about Europe. Mr Sarkozy singled out Peter Mandelson, the EU trade commissioner, for alarming Irish (and French) farmers with talk of cuts to EU tariff barriers. France’s Europe minister, Jean-Pierre Jouyet, attacked “the role of American neo-conservatives” in the Irish referendum. Apparently referring to Declan Ganley, an Irishman with business interests in America who led the no campaign, Mr Jouyet said that Europe has “powerful enemies” across the Atlantic, who had poured money into the Irish campaign. (This conspiracy theory ignores the fact that the few American politicians who have opinions about the EU, on right or left, invariably support integration to make Europe less feeble.)

On the other side, the question, “what part of ‘no’ does the EU not understand?” has been in heavy use among Eurosceptics. But in a way it is too simple. EU politicians understand perfectly well that the Irish have said no. The real question for them is whether the machinery of Europe can cope if a no vote is allowed to stand.

Devout federalists have their answer: unanimity is the enemy of progress in an EU of 27 countries. Under current law, all members must ratify every new treaty. Federalists angrily accuse Ireland of taking the other 26 “hostage” by blocking Lisbon. Some have called for future treaties to be ratified by Europe-wide referendums held on a single day. These, they suggest, could be carried by a double majority of EU citizens, living in a majority of the 27 countries. But it is not going to happen, for it would mean overturning the established principle that EU treaties are agreements between sovereign states. And a large majority of national governments are just not ready for that.

The right to say yes

Most governments agree that unanimity is the only way to decide the most sensitive questions. But their reluctance to allow an Irish no vote to block Lisbon forever suggests an alarmingly narrow reading of unanimity. It seems to boil down to the right of each country to say yes. EU leaders hotly deny that they are anti-democratic. It is just that, by their logic, the proper moment for dissent is when a compromise is being thrashed out in inter-governmental negotiations. As one EU leader puts it, once governments have agreed and signed a treaty, national sovereignty “works both ways”. Each country has a right to decide whether to ratify, but each must respect the sovereign choices of others, he says. Try to untangle what that means, and the rhetoric is empty. When unanimous consent is needed for something, these leaders seem to be saying, sovereign states must all be consulted, but they must also bow to the will of the majority.

Many politicians and commentators, notably in Germany, have demanded that a second Irish referendum on Lisbon must ask voters a tough question, namely: do you want Lisbon, or do you want to leave the EU? But as any Mafia foot soldier would know, this is not a question at all: it is a demand with menaces. Is that the kind of union European leaders want? It seems a high price to pay for Lisbon, a treaty that many officials privately describe as a second-rate compromise.

It may not come to this. Mr Cowen may return in October, bearing polls showing that the Irish are ready to vote yes. But if the polls are negative, or even very close, expect some EU leaders to call for Ireland to be made an offer it cannot refuse.

Britain and the world

Ambiguous Albion

Jun 26th 2008
From The Economist print edition

Bridgeman Art Library



Gordon Brown's foreign policy is timid and unclear

SO MUCH that has transpired during Gordon Brown's first year as prime minister has been unexpected. A politician renowned for strategic cunning has erred repeatedly (most famously over whether to call a snap election last autumn) and now languishes in the polls; an intellectual with an eye for the big picture still lacks a theme for his government, or even a signature reform. Less surprising, perhaps, is that foreign policy has not played the vaulting role in his premiership that it did under Tony Blair, his predecessor, whose time on the world stage included five wars, the pronouncement of a radical doctrine of humanitarian intervention and a mission to put Britain at the heart of the European Union (EU).

Compared with such a record, Mr Brown's foreign policy has shown a circumspection—five months elapsed before he made his first major speech on the topic, and he has few diplomatic initiatives to his name—that cannot adequately be explained by domestic distractions. True, a spluttering economy has grabbed his attention, made voters less indulgent of the jet-setting beloved of Mr Blair and diminished the soft power that Britain enjoyed when it was seen as a country that had mastered globalisation. But economic woes across the Channel have not stopped Nicolas Sarkozy, the French president, rebuilding his country's relationship with America (though he had more need to do so, given the unpopularity of the previous president, Jacques Chirac, in Washington) and propounding bold ideas for Europe.

One explanation is that, after a decade as finance minister, Mr Brown has developed a taste for only the economic dimension of foreign policy. He has a zeal for international development (Foreign Office types complain of the aid budget growing while embassies are closed to save cash), wants reform of the Bretton Woods institutions and believes that trade can discourage conflict—as chancellor of the exchequer he once dispatched Ed Balls, now a member of the cabinet, to investigate the economic obstacles to peace in the Middle East. It is telling that Mr Brown was the only foreign head of government at a big energy conference in Jeddah on June 22nd.

Another theory is that, whereas Mr Blair felt liberated from public opinion in foreign affairs, Mr Brown's conduct abroad is no less guided by political calculation than his domestic policy. As a result, vision gives way to cautious ambiguity. His equivocation over signing the EU treaty last autumn is a case in point; his habit of blowing hot and cold in relations with America (he was coolly correct with President Bush last summer but has warmed up since) is another. Robin Niblett, the director of Chatham House, a research institute, draws the contrast with Mr Sarkozy and Angela Merkel, the German chancellor, both of whom

“made the call that improving relations with America was in their national interest, even though it would be controversial at home”.

Of course, Germany and France had ground to make up that Britain did not, and the prime minister can mount a decent defence to all this. For one thing, his desire (outlined in a speech in Boston in April) to bind rising powers such as Russia and China into a rules-based world does constitute a foreign-policy vision of sorts. For another, even if Britain is less visible internationally than under Mr Blair, it is too early to say whether its influence has suffered for it. Hyperactivity on the world stage is hazardous: the Iraq war that Mr Blair led Britain into is now regarded by most Britons as a mistake, and Mr Sarkozy’s pushiness has alienated Germany.

Seen in this light, Mr Brown’s caution has been well judged. A global poll for *Newsweek*, an American magazine, released on June 16th suggested that Mr Brown is one of the more popular world leaders—outside his own country, at least. And, though Atlanticists and Europhiles loudly urge him in opposite directions, this is the narcissism of small differences: no prime minister will ever be less than engaged with both America and Europe.

Unlike Mr Blair, who essentially ran foreign policy himself, Mr Brown delegates. David Miliband, his foreign secretary, has made high-minded noises on spreading democracy, as well as showing a tough streak on challenges such as Russia and Iran. “He is the first foreign secretary since Robin Cook [who served in Mr Blair’s first term] to have a vision,” says Mark Leonard of the European Council on Foreign Relations, a think-tank.

But Mr Brown cannot draw on vast reserves of foreign-policy thinking in his Labour Party. Blairite outriders and left-wingers are united in their focus on public services. The old Labour right, whose no-nonsense take on national security was embodied by George Robertson, a former NATO secretary-general, is largely extinct. Whereas the Conservative Party harbours a cacophony of voices on foreign policy, ranging from youthful neocons to grizzled realists, Labour has only a few mumbles.

Yet Mr Brown’s lack of sharp elbows on the world stage still perturbs many. America and China can rely on their vast armies and economies to secure them a hearing; the influence of medium-sized powers such as Britain depends greatly on the guile and boldness of their leaders. Mr Niblett points to “missed opportunities” for Mr Brown to take a lead, such as on the future of the EU’s defence capability. Others worry that Britain cannot afford to wait for the inauguration of a new American president to reassert itself as Washington’s closest ally, given assiduous competition from France and Germany. Mr Brown, with Mr Sarkozy, was instrumental in setting up a United Nations peacekeeping force in Darfur. But he is generally more ambiguous on humanitarian intervention than his predecessor, though conflict in Zimbabwe may yet force him to take a stand.

In all these areas, Mr Brown’s constant hedging may be more in line with recent British tradition than Mr Blair’s sometimes reckless certainty. Only the prime minister’s worst enemies would claim that he has been an outright failure in foreign affairs; but not even his cheerleaders (a rapidly diminishing group) would suggest that he has distinguished himself either.

Americans abroad

Not for much longer

Jun 26th 2008
From The Economist print edition

Americans are going home just as the British are beginning to like them again

THE British Museum might not be the obvious first port of call for those in search of lindy-hopping, basketball and "American-style food". But on July 4th it will be, in honour of the day on which America declared its independence from the mother country. The museum also boasts an exhibition of American prints; the Tate Modern has launched a retrospective of the works of Cy Twombly (see article) and the English National Opera has come up with a lavish production of Leonard Bernstein's "Candide". Outside the art scene too, Britain seems to be getting keen on Americans again.

Despite a common language and much shared heritage, it is not always easy for Americans to live in a country where 35% of the population believes that the United States is a "force for evil" (according to a YouGov poll for the *Daily Telegraph* in May) and its president, George Bush, is a near-universal figure of fun. But things may be on the up. Media coverage of America has become more favourable as it focuses on the 2008 election. And a new cast of transatlantic characters makes it harder for the British to claim the moral high ground. One expat observes that Britain's left, faced with the erosion of civil liberties at home and a plausible Conservative victory at the next election, has difficulty feeling holier-than-thou when looking across at Barack Obama, the Democrats' probable candidate for president.

Yet there may soon be fewer Americans to revel in this new-found goodwill, as the credit crunch hammers the City. Big investment banks have always employed loads of Americans in London, and job cuts in the City, which the Centre for Economics and Business Research, a think-tank, reckons may total 11,000 this year, will hit them hard. The gossip among expats is that banks' longer-term responses to the crisis—such as more recruiting of European Union citizens, stingier expat packages and shorter contracts—will further reduce the number of Americans in London.

Around 250,000 citizens of the United States are permanent residents in Britain, and a thousand or so fewer bankers will not change the total much. But many American financiers are high-profile sorts, bringing New York-style (ie, lavish) philanthropy and parties to London. They also tend to be big contributors to the presidential candidates' war-chests—both John McCain and Michelle Obama have attended fund-raisers in Britain's capital. The politicians must be hoping the job cuts hold off for just a little longer.

Pay deals

Resistance struggles

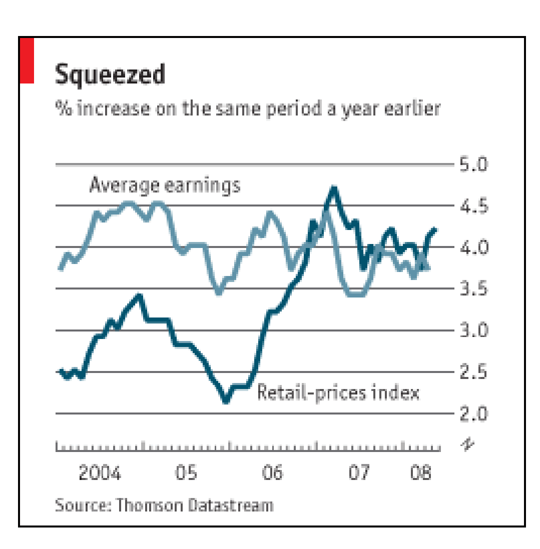
Jun 26th 2008
From The Economist print edition

Wage-earners may not prove as meek as the government wants them to be

AS INFLATION makes an unwelcome return, just how workers respond to it has become overwhelmingly important. Alistair Darling, the chancellor of the exchequer, exhorts wage restraint, and with reason. The last thing he wants—or Britain needs—is a pay-price spiral that would turn a temporary surge in inflation, driven by higher global food and energy costs, into a more persistent and general national affliction. Yet the soaring bill for essentials is bound to make Britons worse off, and workers are not slow to spot it.

Until recently, fear of an inflationary wage-price spiral seemed misplaced. Inflation, measured by the retail-prices index, moved up sharply in the second half of 2006 and has generally remained above 4.0% since then (see chart). Despite this, average-earnings growth has stayed remarkably docile, thanks partly to a flexible labour market and partly to confidence that any upsurge in inflation would peter out.

That now looks set to change. A recent strike by tanker-drivers resulted in a bumper two-year 14% pay rise. This has encouraged militant talk from public-sector unions, who feel aggrieved that the government has insisted on very low pay deals (around 2%) this year and threaten to strike. Some point to big bonuses and pay rises for even conspicuously unsuccessful company bosses as one reason why they should refuse stingy deals themselves.



Wage awards have already begun to move up, according to Incomes Data Services (IDS), which monitors them. For most of the past year or so, the median pay settlement was typically 3.5%, but in the three months to April it rose to 3.8%. And total earnings, which include bonuses and overtime, tend to increase faster than basic pay. Ken Mulkearn of IDS says that many firms which had secured lower increases in 2007 in the expectation that inflation would fall have had to agree to higher rises this year to restore purchasing power.

Whether workers succeed in resisting a fall in their living standards will depend mainly on the balance of power in the labour market. This seems to be tilting towards employers, as unemployment starts to rise. But the big influx of workers from eastern Europe since 2004, which helped to keep a handle on pay pressures, is slowing as new arrivals dwindle and some longer-established workers return home.

Political will also has a role to play. Unions are strongest in the public sector, and garbage left to rot in the summer sun is already promised. Mr Darling may find that too much for even his sangfroid.

Criminal law

A matter of justice

Jun 26th 2008
From The Economist print edition

A controversial ruling on anonymous witnesses prompts calls for a new law

ONCE again, the government has been thrown into a tizzy. Dozens of criminal prosecutions, many involving suspected terrorists, could be in jeopardy as a result of a ruling by the House of Lords, Britain's highest court of appeal, deeming it unlawful for prosecutors to rely on anonymous witnesses to secure convictions. On June 26th the government announced emergency legislation in an attempt to rescue trials and block appeals in scores of cases where defendants have already been convicted. It hopes to rush through a bill before Parliament rises on July 22nd.

The law lords' ruling, on June 18th, has already claimed its first casualty. On June 24th a murder trial at London's Central Criminal Court, which had cost £6m, was halted after the judge told the jury it had heard evidence from "a number of witnesses that you should not have heard". Four witnesses, using false names, had given evidence over two months from behind screens in the trial of two men accused of killing another man in East London in 2004.

Contrary to some reports, the law lords did not rule that anonymous witnesses may never be used. In an appeal brought by Iain Davis, jailed four years ago for murdering two men after a New Year's Eve party, they said the defendant had been denied a fair trial because the identity of three key witnesses, without whose evidence Davis would not have been convicted, remained hidden from the defence. They recommended that the conviction be quashed and a new trial held.

Delivering the ruling, Lord Bingham said that the right of an accused to confront his accusers so as to be able to challenge their evidence was a long-established principle of English common law. America had adopted it as a constitutional right, and other common-law countries too considered it important. The principle was also enshrined in the European Convention on Human Rights; under case law of the European court, no conviction should be based solely, or to a decisive extent, on the testimony of anonymous witnesses.

The law lords accepted that the problem of witness intimidation was real. Witnesses often would not give evidence unless their identity was withheld from the defence, and dangerous criminals might then walk free. This, Lord Bingham conceded, was a serious problem that "might well" call for urgent attention by Parliament. But the paramount object must always be to do justice. In Iain Davis's case, the anonymity granted to witnesses hampered the conduct of the defence "in a manner and to an extent" that was unlawful and rendered the trial unfair, he said.

Police and prosecutors have increasingly resorted to promises of anonymity in order to persuade frightened witnesses to testify in cases of gangland violence and gun crime. Many fear the ruling could have a catastrophic effect on current and future prosecutions. But the government seems convinced that it can fix the problem and the Conservatives have intimated their willingness to co-operate. It may prove harder to square the new law with the human-rights legislation.

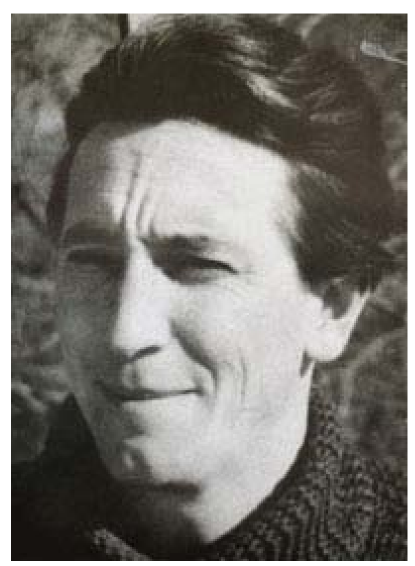
The Markov murder

Dead, not buried

Jun 26th 2008 | SOFIA
From The Economist print edition

New light on an old murder

AP



Still unaccounted for

WHEN Georgi Markov, a Bulgarian émigré broadcaster, was murdered in London in 1978, few could have suspected that Communist rule in his country would collapse a decade or so later. But Bulgaria's democratic rulers proved unable to help solve one of Britain's most spectacular political murders. Key files were inexplicably destroyed; two senior officials died mysteriously. Though the cause of death—a pellet laden with a fatal poison, ricin, supposedly poked in with an umbrella—had long been known, the trail to those who ordered the killing seemed to have gone cold.

Now Scotland Yard officers have again been visiting Bulgaria, interviewing former secret-police officers and examining documents that they sought in vain in the early 1990s. At a time when Bulgaria's reputation in the European Union has been dented by the seeming impunity enjoyed by its gangsters and their corrupt pals in officialdom, its willingness to co-operate with the British investigation will be an important test of good faith. "It will show to what extent former spies still control the country," says Hristo Hristov, a Bulgarian journalist who follows the Markov case closely.

Bulgaria's co-operation contrasts sharply with Russia's intransigence over the murder of Alexander Litvinenko, a British citizen and vociferous critic of the Kremlin, who was poisoned in London in November 2006 by a rare radioactive element, polonium. British officials are convinced that Russia's security service, the FSB, was involved in the murder. The prime suspect, Andrei Lugovoi, is now a celebrated Russian parliamentarian.

The Bulgarian authorities could obstruct the Markov investigation until after September 11th, the 30th anniversary of the murder, when the statute of limitations kicks in. But racing against time to find clues in heavily weeded archives in Sofia is unnecessary if the whole story is available elsewhere. Whether or not the Soviet KGB ordered Markov's murder, their close Bulgarian allies would certainly have shared details of such a risky operation. Bulgaria asked Russia to declassify its Markov files in 1991 but did not pursue it. If the new man in the Kremlin, Dmitry Medvedev, truly wants to thaw his country's icy relations with Britain, he could do worse than pass on whatever the closely-guarded archives of the old KGB contain on the Markov murder.

Scottish public finances

History repeats itself

Jun 26th 2008 | EDINBURGH
From The Economist print edition

High oil prices underpin a bid for freedom

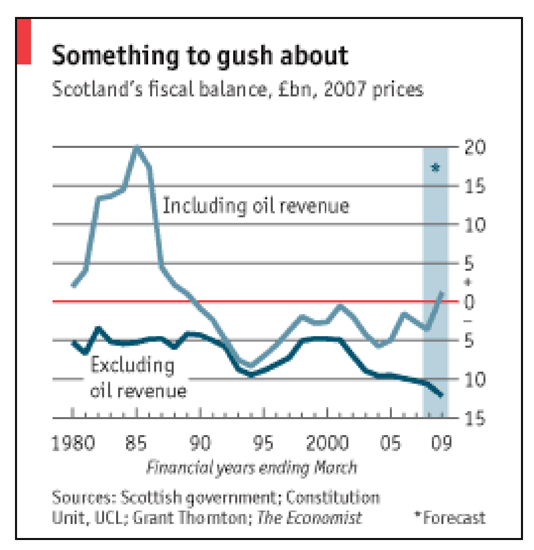
EVERY time the Scottish National Party (SNP) puts on a big heave to persuade Scots to opt for independence, it comes up against an apparently insuperable obstacle: that Scots appear to pay far less in tax than they receive in public spending. Shorn of the subsidy from south of the border, the SNP's opponents are wont to say, an independent Scotland would be a poorer one. Even offshore oil has been unable to fill the gap—until now.

Each year Scotland's devolved government tots up all public spending alongside estimates of all taxes raised and publishes a snapshot of Scottish public finances. This year's version, released on June 20th, contained two surprises. The first was a series of corrections to past editions that reduced the excess of Scottish spending over taxes by nearly a fifth. After a year poring over Treasury and departmental databases, statisticians concluded that much spending in England and Wales had been attributed to Scotland, and not enough revenue raised in Scotland (by public corporations, for example) taken into account. That reduced the fiscal gap in 2006-07 to a still-hefty £10.2 billion, or 9.7% of Scottish GDP.

The second surprise came from research commissioned by the government to estimate Scotland's share of oil taxes (updating work first commissioned by *The Economist* in 1999). Using a sea boundary agreed by both British and Scottish governments for determining jurisdiction over fisheries, Alex Kemp, a professor of petroleum economics at Aberdeen University, calculates that on 2006-07 production patterns an independent Scotland would have received about 83% of oil revenues. That reduces the deficit to £2.7 billion in the year to March 2007—just 2.1% of Scotland's GDP and better than Britain's overall deficit that year of 2.3%. Moreover, these calculations were based on an average price of oil in 2006-07 of just $65 a barrel, compared with an average so far this financial year of $121. The increase massively outweighs expected falls in production and flips Scotland's deficit into surplus.

On June 21st Alex Salmond, Scotland's first minister, wrote to Alistair Darling, the chancellor of the exchequer, claiming that the boom in oil prices would produce revenues this financial year that are £6.2 billion higher than Mr Darling forecast in March. The windfall, he said, should be used to cut fuel duties and provide subsidies for farmers, fishermen and road-haulage firms, and Scotland should get £500m to set up an oil fund similar to Norway's.

Mr Salmond is jubilant at these figures. A look at the long-term pattern, however, should give him pause for thought. Using the most recent statistical revisions and Mr Kemp's research, *The Economist* has compiled a 27-year run of Scottish fiscal-balance figures to which a forecast for the next two years has been added (see chart). It shows, as expected, that without oil Scotland's deficit has grown in recent years as spending outpaced tax revenues. Adding in oil revenues improves the figures markedly—but also produces a picture of boom and bust. An independent Scotland would have run big public-finance surpluses in the 1980s but suffered in the 1990s as the price of oil slumped. Only now is a return to surplus in prospect—but this assumes that the price of oil stays above $120 a barrel and even then is relatively small.



That is unlikely to worry Mr Salmond, who has an eye to history. In 1973 Britain's government faced a wave of strikes and an economy wracked by inflation. Then the Organisation of Petroleum Exporting Countries quadrupled the price of oil. With the North Sea just starting to yield its treasure, the SNP urged Scots to escape from decline and chaos by choosing prosperous, oil-funded independence. The party went on to win 30.4% of the Scottish vote in the general election of October 1974, up from just 11.4% four years earlier. The result pushed the Labour Party down

the road to devolution and the creation of the Scottish Parliament in 1999. This time, Mr Salmond hopes, an oil boom will carry Scotland all the way to independence.

Bradford & Bingley

Bungling & Benighted

Jun 26th 2008
From The Economist print edition

A bank rescue takes a new and contested turn


Illustration by David Simonds

BACKS were slapped in relief at the Bank of England and Financial Services Authority in early June after they helped engineer a rescue and recapitalisation of Bradford & Bingley, a troubled British bank. Fresh in their minds was the run on deposits that felled Northern Rock last year.

Then regulators had snoozed, and the central bank had not deigned to dirty its hands with anything so crass as officiating at a shotgun wedding to shore up the staggering bank. This time regulators moved quickly when B&B's efforts to raise £400m from its shareholders looked set to fail. It bundled B&B down the aisle with TPG—an American private-equity firm once known as Texas Pacific Group—before word could leak out about the bank's rapidly deteriorating mortgage book. A run on deposits was averted, but the sweetheart deal offered to TPG, under which it was allowed to buy shares at a deep discount, shortchanged the bank's existing shareholders. It is a cardinal rule of British finance that old shareholders should not be discriminated against in favour of new ones (see article).

The regulators might have done better to hang back a bit this time, however. The swiftly-engineered rescue is now in contention. On June 23rd Clive Cowdery, a dark knight of British finance, came up with a rival proposal to stump up the full £400m, paying 72p per share (well above TPG's 55p). He and his firm, Resolution, have the backing of four big B&B shareholders, who speak for almost 15% of the shares. All the bank's existing owners would be entitled to buy their fair proportion of the new shares from Resolution, in a sort of reverse underwriting of the offer. And the newcomers' voting rights would be limited to less than 30%.

At first glance, this seems good news for everyone except TPG. A bidding war would surely show confidence in the bank and enhance its ability to raise cash. Investors responded with initial enthusiasm, pushing up the price of the bank's shares. So did regulators, who saw the competition for B&B as a sign that the worst of the credit crunch is over for Britain's banks.

Some think a bigger revolution is in the making here, for Mr Cowdery wants this investment to kick-start the consolidation of Britain's weaker banks. He is looking to spend up to £2 billion buying small banks, building societies and even parts of larger banks that focused on the riskiest bits of the mortgage market. Funding themselves mainly by borrowing in the wholesale markets, and by securitising and selling off their loans, many have now been left in limbo as the credit crunch restricts their access to affordable fresh cash. He plans to roll them into a big, well-funded bank with a diverse mixture of assets which would, he hopes, command a higher credit rating and thus borrow more cheaply.

Where financial innovation is concerned, Mr Cowdery has form. He made a fortune buying life-insurance books that were closed to new members (known as "zombie funds") from troubled insurers at low prices, selling the resulting package this year to another insurer, Pearl. But would the approach work for "zombie banks"? Mortgage books are different from closed life funds, whose clients are locked in and risks diminish over time. Closed mortgage books diminish quickly as creditworthy borrowers remortgage elsewhere at cheaper rates and leave behind those who are rejected by other banks.

Whatever the merits of Mr Cowdery's larger ambitions, for B&B's board, his proposal spells trouble. It has rejected Mr Cowdery twice, and is urging shareholders to support TPG's offer at a meeting on July 7th. Even if shareholders refuse to do so, TPG may still get its way. In its initial agreement with the bank, TPG

appears to have secured the right to buy shares in B&B if the shareholders reject its bid and then decide to raise money elsewhere. Lawyers disagree as to whether these rights are watertight, but they also cast some doubt on whether Resolution can come up with a binding offer. Much as many shareholders seem inclined to throw in their lot with Mr Cowdery, in doing so they run the risk of leaving B&B stranded at the altar.

Northern Ireland

Oh, for a honeymoon

Jun 26th 2008 | BELFAST
From The Economist print edition

Both parties to an improbable marriage must learn to rub along

NORTHERN IRELAND without the Rev Ian Paisley? The man who bestrode the region's troubled politics for decades has been gone for less than a month, and already the place feels different. Peter Robinson, who stepped into his shoes on June 5th as first minister, is putting his own gloss on things. That means, first and foremost, defining the relationship with his partner-in-power, Martin McGuinness, Sinn Fein's man of the moment and deputy first minister.

It was, perhaps, an unfortunate start that Sinn Fein tried to hijack Mr Robinson's assumption of office to extract concessions on matters in dispute. To resolve their differences they trod the familiar path to Number 10. Mr Brown was, it seems, less inclined than his predecessor to get involved in the nitty-gritty of Stormont politics. On June 6th he listened to the two, then told them to go sort out their disagreements at home.

AP



McGuinness and Robinson: Chuckle Brothers, Mark II

One is over what should replace the now-defunct 11-plus exam used for admission to grammar schools. Prized by unionists, it was junked in the last days of the previous power-sharing administration by Mr McGuinness, then education minister. Another quarrel has to do with the Irish language: Sinn Fein want to give it official status; the Unionists demur. And handing control of policing to the power-sharing executive is also thorny.

Mr Robinson's early appointments may steady his party after the discombobulation it felt at the sight of Mr Paisley laughing and joking with the former arch-enemy. They may also make it harder for him to rub along with his nationalist partners in government.

Gregory Campbell, a Westminster MP, is now Stormont's minister for culture, arts and leisure—putting him in charge of the Irish language (and Ulster Scots) and grants to Protestant marching groups. He has in the past attacked equality and anti-discrimination legislation, the purpose of which, he insists, is to disadvantage Protestants. Sammy Wilson, another Westminster MP, is minister for the environment. Popular within his own party for dubbing Irish "leprechaun language", he marked his appointment by questioning the link between carbon-dioxide emissions and climate change. And Mervyn Storey, a creationist who has replaced Mr Wilson as chairman of Stormont's monitoring committee on education, takes time out from criticising the planned 11-plus replacement to nag the education minister, a Sinn Fein MP, to have intelligent design taught in schools.

While Mr Robinson and Mr McGuinness were discussing their differences in London, Iris Robinson—an MP and Mr Robinson's wife—was making her own contribution to the rich tapestry that is Northern Ireland's political life. Speaking on Radio Ulster, she condemned a homophobic attack near Belfast, but added that homosexuality was an "abomination" and that she worked with a "lovely" psychiatrist who helps homosexuals become heterosexual. Mr Robinson had to assure the Assembly that his wife, like himself, would be "at the forefront defending anyone who was being discriminated against". Proof, if he needed another, that no marriage is easy.

Bagehot

Captain Malaprop

Jun 26th 2008
From The Economist print edition

Illustration by Steve O'Brien



Gordon Brown's failure to speak to voters in a language they understand has undone him

TO MARK Gordon Brown's anniversary as prime minister on June 27th, the Conservatives produced a cruel but funny dossier. After the serious stuff about economic woes and U-turns, civil liberties and lost data discs, the document turns to Mr Brown's Bush-esque malapropisms (Nelson Mandela free "in our lunch time") and weird pronunciations ("Dial-eye Lama"). The whimsy and gaffes, however, point to what has been Mr Brown's most damaging flaw: he is a lousy communicator. A failing in any leader, for Mr Brown this weakness has proved catastrophic.

Part of the problem is—how to put it politely?—the prime minister's proclivity, under pressure, to be prudent with the truth. It isn't only his tricksiness with statistics, his fondness for misleading historical comparisons (for example, on inflation) and self-serving exaggeration (such as his wild rounding-up of poverty-reduction figures): all that is more or less routine, and passes unnoticed by most voters. Much more damaging have been his periodic assertions that black is white—as in his claim that Wendy Alexander, Labour's leader in the Scottish Parliament, had not urged a referendum on Scottish independence, despite her call to "bring it on", or his avowal that no inducements had been offered to Unionist and backbench Labour MPs this month in return for their votes on his counter-terrorism plans.

The mother of all such incredibilities, however, was Mr Brown's insistence, after he called off the general election he almost held last autumn, that his decision had nothing, repeat nothing, to do with alarming opinion polls. As tends to happen, it was this cover-up, as much as the minor crime of cowardice, that hurt him. Probably Mr Brown believes that his higher moral purpose justifies such distortions. But they have cost him the respect of political journalists, and through them the faith of the public.

Sadly (for him and Labour), Mr Brown has a bad habit even more damaging than saying impossible things: saying nothing at all, often at excruciating length. He sometimes seems to have accepted a dare never to answer an interviewer's question. Instead he responds to an imaginary softball—along the lines of "in what ways are the country's problems not your fault, and didn't it use to be worse?"—pursuing a gloomy loop of "long-term decisions" and excuses. Beneath these iterations there lies a strategic insight that once served New Labour well: that its core message should be repeated incessantly until it reached the generally apolitical public. But that method works only if the message is clear and appealing. Mr Brown's themes have often been neither.

Beyond the universal if dispiriting fact that most people vote with their guts—forming their views on policy on the basis of character judgments rather than vice versa—Mr Brown's oratorical woodenness matters for two big reasons. The first is that it has enabled his critics to define his image, perhaps irreversibly.

If Britain had a Soviet-style media, willing to relay slavishly the leader's verbiage to the nation, he would be able to control the news agenda regardless. But it doesn't, and editors instead tend to pass over his utterances in favour of something less soporific. As a result, opportunities for Mr Brown to seize the front pages, such as his monthly press conferences, yield him little. No prime-ministerial remark has lodged in the public imagination and cropped up in conversation nearly as much as the gibe by Vince Cable, the Liberal Democrat shadow chancellor, about Mr Brown metamorphosing from Stalin to Mr Bean.

The second reason why Mr Brown's inarticulacy has undone him concerns the particular circumstances in which he eventually made it to Number 10. Those circumstances have made communicating—soothing, placating, empathising: all the emotional skills he struggles with—Mr Brown's main task.

Blairism with an inhuman face

In fact, his spin team did start out with a plan: to portray him as an anti-Blair, a plain blunt man and ecumenical father of the nation. It worked too well: the Brownites' schemes for an early-ish election, probably around now, were giddily and disastrously brought forward. But in any case the bid to paint Mr Brown as an avenging if unvarnished angel of change could never last. He was chancellor for a decade; his best ideas are spent; and anyway there is no cash left for eye-catching splurges. (Policy-wise, his premiership increasingly resembles a high-speed version of his predecessor's: equivocation, then a gathering commitment to public-service reform, macho confrontation with public-sector unions, and so on.) So what Labour needed, in 2007, was a leader to defend its record with self-deprecating charm.

It also needed someone who could reassure the public about rising inflation and falling house prices. Mr Brown honed his droning, attritional approach to economic chat in a different job and in different times: during a boom, when voters were complacently content to be bored by their seemingly alchemic chancellor. Now they are listening to him harder. They want to hear the prime minister persuade them that things will get better, or at least that he feels and shares their pain. Instead he offers a sort of deflating miserablism.

Mr Brown's short, hapless premiership has already provided three curiosities for future historians. The first is how he became prime minister without a whimper of internal dissent—an accession that has already come to look like a case of bizarre group-think. A second is what would have happened had he swallowed those polls and gone to the country last autumn.

The third Brownian essay topic may well be how, after his initial vertiginous bounce, the prime minister fell so far and so fast, without the objective pressure of a poll tax, currency meltdown or other crisis. Part of the answer is that Mr Brown's failure has been intensely political, and it has an elementary political cause. The prime minister, who lambasts his main rival as a "shallow salesman", has been unable to sell himself.

Education reform

Top of the class

Jun 26th 2008 | HELSINKI
From The Economist print edition

Illustration by Claudio Munoz



How to learn the right lessons from other countries' schools

THE children at Kulosaari primary school, in a suburb of Helsinki, seem unfazed by the stream of foreign visitors wandering through their classrooms. The head teacher and her staff find it commonplace too—and no wonder. The world is beating a path to Finland to find out what made this unostentatious Nordic country top of international education league tables. Finland's education ministry has three full-time staff handling school visits by foreign politicians, officials and journalists. The schools in the shop window rotate each year; currently, Kulosaari is on call, along with around 15 others. Pirkko Kotilainen, one of the three officials, says her busiest period was during Finland's European Union presidency, when she had to arrange school visits for 300 foreign journalists in just six months of 2006.

Finland's status as an education-tourism hot spot is a result of the hot fashion in education policy: to look abroad for lessons in schooling. Some destinations appeal to niche markets: Sweden's "voucher" system draws school choice aficionados; New Zealand's skinny education bureaucracy appeals to decentralisers. Policymakers who regard the stick as mightier than the carrot admire the hard-hitting schools inspectorate and high-stakes mandatory tests in England (other bits of Britain have different systems).

But visitors to Finland—and to a lesser extent to South Korea, Hong Kong, Taiwan, Japan and Canada—are drawn by these countries' high scores in a ranking organised by the Paris-based Organisation for Economic Co-operation and Development (OECD), a rich-country think-tank. Its Programme for International Student Assessment (PISA) tests 15-year-olds from dozens of countries (most recently 56) in literacy, mathematics and science. Finland habitually comes top; the others jockey for places as runners-up (see chart).

Such a quest is understandable but misguided, says Alan Smithers, an expert in cross-border education comparisons at Britain's University of Buckingham. Importing elements of a successful education system—the balance between central and local government, the age of transfer to secondary school, the wearing of school uniforms and so on—is unlikely to improve performance. "You shouldn't try to copy the top performers in PISA," he says, "because position in those league tables depends on lots of other things besides what happens in schools."

Bearing out Mr Smithers's caution is an analysis of Finland's most recent PISA results, from 2006, by Jarkko Hautamäki and his colleagues at Helsinki University. They highlight only one big policy element that could easily be replicated elsewhere: early and energetic intervention for struggling pupils. Many of the other ingredients for success that they identify—orthography, geography and history—have nothing to do with how schools are run, or what happens in classrooms.

In Finnish, exceptionally, each letter makes a single logical sound and there are no irregular words. That makes learning to read easy. An economy until recently dependent on peasant farming in harsh latitudes has shaped a stoic national character and an appetite for self-improvement. Centuries of foreign rule (first Swedes, then Russians) further entrenched education as the centrepiece of national identity. So hard work and good behaviour are the norm; teaching tempts the best graduates (nearly nine out of ten would-be teachers are turned down).

Few countries would want to copy Finland's austere climate or sombre history even if they could (though spelling reform in English might merit consideration). More instructive, perhaps, is looking not at how Finland's schools are run, but how decisions about education are made. As in other European countries, Finland merged specialist academic and vocational schools into comprehensive ones in the 1970s. The first point Mr Hautamäki highlights is broad consensus, cautiously but irrevocably reached. "They simply kept going until they reached agreement," he says. "It took two years."

Comprehensive schools were introduced in 1972 in the sparsely populated north, and then over the next four years in the rest of the country. Matti Meri, a teacher-trainer at Helsinki University, was a teacher at the time. "Grammar-school teachers were quite afraid of the reforms," he recalls. "They used to teach only one-third of the students. But the comprehensive schools used almost the same curriculum as the grammar schools had—and we discovered that the two-thirds were mostly able to cope with it." By the time comprehensives reached the more populous south, teachers were eager to join in what was clearly a roaring success.

"What you are planning might be the right thing to do, but if teachers aren't on board it will be very hard to make anything happen," says Sam Freedman, the director of education for Policy Exchange, a London-based think-tank. He points to Canada, where Alberta and Ontario both introduced major reforms in the 1990s. Alberta's provincial government won general support for its ideas, and the reforms are now uncontentious. In Ontario, by contrast, politicians' rhetoric was confrontational and the teachers' unions bitterly opposed. The current government is having to work hard to mend fences.

Finland's education reforms may have taken ten years from conception to full implementation, but they have proved durable: little has needed changing in the 30 years since. Mr Smithers draws a gloomy contrast with the permanent revolution that reigns in England's schools. "Politicians here seem to think that a day without an education announcement is a day wasted," he says. New policies should build on previous ones, agrees Andreas Schleicher, the OECD's head of education research. "In some countries, though, a new government's greatest ambition is to undo everything its predecessors did."

Mr Schleicher acknowledges that the hopeful, or simply naive, sometimes rifle through the PISA studies for shiny new education initiatives to pilfer. But, he says, international comparisons teach a crucial lesson: what is possible. "In 1995, at the first meeting of OECD ministers I attended, every country boasted of its own success and its own brilliant reforms. Now international comparisons make it clear who is failing. There is no place to hide."

Ancient Greek

Bats about the Attic

Jun 26th 2008
From The Economist print edition

Manuel Harlan Royal National Theatre



The Bacchae: a role model for the aspiring Hellenist

Fewer Greek students, but still plenty of devoted ones

ATROPOS is the Fate who cuts the lifeline once your time is up; she would seem to have her shears out for the study of classical (Ancient) Greek. Once, with Latin, the staple of a civilised education, it is now flickering on the sidelines.

At first sight, the statistics are positively wine-dark. As part of school education, countries may maintain it in theory but rarely in practice. Portuguese pupils have it as an option in their final year; in Sweden fewer than 100 schoolchildren study it, in Belgium around 800. In Britain, of a mere 241 entrants for Greek A-level (typically taken at 18) in 2007, fully 226 were from independent (private) schools.

The problem for Greek is that snobbery does not trounce pragmatism. Latin, once seemingly moribund, is on the rise again in Britain and America. It is not just useful: in a competitive system, it sends a coded message about the nature of the school, and the kind of pupils it attracts. But finding the time and teachers to teach even one dead language properly is hard enough. A second imposes near-intolerable strains on the timetable.

Yet mingle with the 300-plus participants from Britain, Europe, America, Hong Kong and elsewhere indulging in frantic pedagogy at the Hellenists' version of Woodstock (an annual summer school at Bryanston in southern England) and a different picture emerges. Monopod classicists add Greek to their existing Latin, covering a semester's-worth of study in a fortnight. For relaxation, they can listen to the world's academic authorities disputing the pronunciation of Homer and illuminating the knotty wordplay of Plato's "Republic".

The rosy fingers are touching universities too. Though some classics departments in the United States have had to close or merge, the number of students enrolled in Greek has been going up since the 1990s. In 2006 fully 22,849 took some Greek (32,191 studied Latin). Applications for classics courses at top British universities are healthy too.

Logos and Theos

Christianity, rather than the glories of Athens and the horrors of Sparta, may be proving the biggest draw. Though some fundamentalists appear to believe that the Bible was written in English, for the more thoughtful (or pious) Christian, serious study of the New Testament or the early Christian church is impossible without first knowing alpha from omega. In America, Greek and Hebrew are standard parts of

a Master of Divinity degree—necessary to become a minister in most respectable Protestant denominations. That does not match the now fast-reviving use of Latin in the Roman Catholic liturgy. But it helps. While the *koine* Greek current in the eastern Mediterranean in the 1st century AD is different from the Attic, Ionian or Homeric dialects used in the greatest works of classical literature, it is also considerably easier. (For the austere classicists of St Paul's Girls' School in London, a touch of *koine* is regarded as a "Christmas treat".)

In practice, few classes bond quite as tightly as the six students featured in Donna Tartt's bestselling novel "The Secret History" (in a pastiche of Euripides's "Bacchae", they commit and conceal two vicious murders). But such references highlight the subject as something exotic and therefore desirable, at least to those with time and brainpower to engage in it. The cryptic difficulties of Greek (alphabet, accents, moods, particles and tenses) repel *Οἱ Πολλοί* (hoi polloi) but attract devotees. Intellectual elitism, as much as an appreciation of Aristophanes's bawdy humour, is the glue that binds Hellenists together—stoked, in some schools, by a feeling of official neglect or hostility from peers.

The real threat is not modernity, but globalisation. Europe's glorious past is one of many: when those seeking to understand China start studying Confucius's "Analects" with the same attention that past generations have paid to Pericles, the intricacies of the aorist optative may finally lose their charms. But not just yet.



Politics on the web

Blog standard

Jun 26th 2008
From The Economist print edition

Authoritarian governments can lock up bloggers. It is harder to outwit them

WHAT do Barbra Streisand and the Tunisian president, Zine el-Abidine Ben Ali, have in common? They both tried to block material they dislike from appearing on the internet. And they were both spectacularly unsuccessful. In 2003 Ms Streisand objected to aerial photographs of her home in Malibu appearing in a collection of publicly available coastline pictures. She sued (unsuccessfully) for $50m—and in doing so ensured that the pictures gained far wider publicity.

That self-defeating behaviour coined the phrase “Streisand effect”, illustrated by an axiom from John Gilmore, one of the pioneers of the internet, that: “The Net interprets censorship as damage and routes around it.” But the big test of the rule is not whether it frustrates publicity-shy celebrities. It is whether it can overcome governments’ desire for secrecy.

In November 2007 Tunisia blocked access to the popular video-sharing sites YouTube and DailyMotion, which both carried material about Tunisian political prisoners. It was not for the first time, and many other countries have blocked access to such sites, either to protect public morals, or to spare politicians’ blushes. What was unusual this time was the response. Tunisian activists and their allies organised a “digital sit-in”, linking dozens of videos about civil liberties to the image of the presidential palace in Google Earth. That turned a low-key human-rights story into a fashionable global campaign.

It was the same story in Armenia in March, where the president, Robert Kocharian, ended his term in office with a media blackout that, supposedly, extended to blogs (self-published websites which typically contain the author’s personal observations and opinions). Like all other outlets, the authorities said, blogs could publish government news only. The result was a soaring number of blogs hosted on servers outside Armenia—all sharply critical of the authorities.

Some countries still think that the benefits of censorship are worth the opprobrium. China unabashedly blocks foreign news sites, with state-financed digital censors playing an elaborate game of cat and mouse with those trying to elude them. Saudi Arabia makes a positive virtue of the practice, warning those trying to access prohibited websites of the dangers of pornography: sources cited include the Koran and Cass Sunstein, an American scholar who argues that porn does not automatically deserve First Amendment protection.

Such authoritarian countries are increasingly co-operating: Chinese software for finding keywords and spotting dangerous sites is among the best in the world. But international co-operation cuts both ways. If Egypt, for example, buys Chinese web-censorship technology, the Egyptian bloggers may learn ways to bypass it from their Chinese colleagues before the technology arrives.

That may keep information flowing fairly freely. But it does not keep bloggers out of prison. Security officials who once scoffed at blogs, or ignored them completely in favour of bigger and more conspicuous targets, are now bringing their legal and other arsenals to bear. A common move is to expand media, information and electoral laws to include blogs. Last year, for example, Uzbekistan changed its media law to count all websites as “mass media”—a category subject to Draconian restriction. Belarus now requires owners of internet cafés to keep a log of all websites that their customers visit: in a country where internet access at home is still rare and costly, that is a big hurdle for the active netizen. Earlier this year Indonesia passed a law that made it much riskier to publish controversial opinions online. A Brazilian court has ruled that bloggers, like other media, must abide by restrictions imposed by the law on elections.

The chilling effect of such moves is intensified when governments back them up with imprisonment. From Egypt to Malaysia to Saudi Arabia to Singapore, bloggers have in recent months found themselves behind bars for posting materials that those in power dislike. The most recent Worldwide Press Freedom Index,

published by Reporters Without Borders, a lobby group, estimates their number at a minimum of 64.

International human-rights organisations have taken up their cause. But the best and quickest way of defending those in prison may be with the help of other internet activists. Sami ben Gharbia, a Tunisian digital activist who now lives in exile in the Netherlands, says that this beats traditional human-rights outfits when it comes to informing the world about the arrest of fellow bloggers. He co-ordinates the campaigning efforts of Global Voices Online, a web-based outfit that began as a collator of offbeat blog content and has now branched out into lobbying for free speech.

Such issues were expected to be in sharp focus at Global Voices' annual summit in Budapest this week, where hundreds of bloggers, academics, do-gooders and journalists from places like China, Belarus, Venezuela and Kenya were due to swap tips on how to outwit officialdom. The aim, says Ethan Zuckerman, a Harvard academic who cofounded Global Voices, is to build networks of trust and co-operation between people who would not instinctively look to the other side of the world for solutions to their problems.

That is a worthy if ambitious goal. Doubtless, authoritarian governments are in close touch too, sharing the best ways of dealing with the pestilential gadflies and troublemakers of the internet. But they will not be posting their conclusions online, for all to see. Which way works better? History will decide.

Industrial biotechnology

Better living through chemurgy

Jun 26th 2008 | NEW YORK
From The Economist print edition

Illustration by David Simonds



Efforts to replace oil-based chemicals with renewable alternatives are taking off

FORTY years ago Dustin Hoffman's character in "The Graduate" was given a famous piece of career advice: "Just one word…plastics." It was appropriate at the time, given that the 1960s were a golden age of petrochemical innovation. Oil was cheap and seemed limitless. Since then, scientists have kept on coming up with wondrous new products made from petroleum that helped to ensure, in the words of one corporate slogan, better living through chemistry. Even so, someone offering advice to today's promising graduates might invoke a different, uglier word: chemurgy.

This term, coined in the 1930s, refers to a branch of applied chemistry that turns agricultural feedstocks into industrial and consumer products. It had several successes early in the 20th century. Cellulose was used to make everything from paint brushes to the film on which motion pictures were captured. George Washington Carver, an American scientist, developed hundreds of ways to convert peanuts, sweet potatoes and other crops into glue, soaps, paints, dyes and other industrial products. In the 1930s Henry Ford started using parts made from agricultural materials, and even built an all-soy car. But the outbreak of the second world war and the shift to wartime production halted his experiment. After the war, low oil prices and breakthroughs in petrochemical technologies ensured the dominance of petroleum-based plastics and chemicals.

But now chemurgy is back with a vengeance, in the shape of modern industrial biotechnology. Advances in bioengineering, environmental worries, high oil prices and new ways to improve the performance of oil-based products using biotechnology have led to a revival of interest in using agricultural feedstocks to make plastics, paints, textile fibres and other industrial products that now come from oil.

This form of biotechnology has not attracted as much attention as biotech drugs, genetically modified organisms or biofuels, but it has been quietly growing for years. BASF, a German chemical giant, estimates that bio-based products account for some €300m ($470m) of sales in such things as "chiral intermediates" (which give the kick to its pesticides). The sale of industrial enzymes by Novozymes, a Danish firm, brings in over €950m a year, about a third of it from enzymes for improving laundry detergents. Jens Riese of McKinsey, a consultancy, reckons industrial biotech's global sales will soar to $100 billion by 2011—by which time sales of biofuels will have reached only $72 billion.

Will this boom really prove to be more sustainable than the first, ill-fated blossoming of chemurgy? One potential problem is that oil-based polymers are very good at what they do. Early bioplastics melted too easily, or proved unable to keep soft drinks fizzy when they were made into bottles. Pat Gruber, a green-chemistry guru who helped start NatureWorks (a pioneering biopolymers firm) says customers are sometimes too risk-averse to retrain staff or modify equipment to accept a new biopolymer—even if it is cheaper or better.

It seems likely that oil-based products will be around for a long time in some applications. But the big advances in oil-based polymers happened decades ago, whereas the number of patents granted for industrial biotechnology now exceeds 20,000 per year. Such is the pace of innovation, says Tjerk de Ruiter, chief executive of Genencor, a industrial-biotech firm that is now a division of Denmark's Danisco, that processes that once took five years now take just one. And Steen Riisgaard, the boss of Novozymes, insists that new technologies can indeed push old ones out of the way, provided they are clearly superior (and not just greener). Brewers raced to adopt Novozymes' novel enzymes, for example, in order to cash in on the Atkins Diet craze with "low carb" beers.

A second potential obstacle is that incumbent companies will quash the fledgling new technologies. But concern about oil's reliability as a feedstock means that even oil-dependent incumbents are interested in alternatives. Oil companies such as Royal Dutch Shell and BP see novel bioproducts not as threats but as useful tools for blending into, and possibly extending, remaining oil reserves. And chemicals giants such as Dow and DuPont are also big fans of novel industrial biotechnologies. Chad Holliday, DuPont's boss, is sure that Sorona, his firm's new biofibre, will be a multi-billion dollar product and "the next nylon". DuPont expects its sales of industrial biotechnology products to grow by 16-18% a year, to reach $1 billion by 2012.

Perhaps the biggest worry is that today's industrial-biotech boom is an artefact of the soaring price of oil. If the oil price plunged and stayed low, the boom would surely turn to bust. Short of outright collapse, however, even a sharp price drop need not burst the biotech bubble. Mr Riese has scrutinised the economics of sugar and oil—the chief rival feedstocks—and concludes that the "bio-route" will be cheaper even at an oil price of $50-60 a barrel. Brent Erickson of BIO, an industry lobby, argues that "this was happening long before the oil-price spike—$100 oil is just gravy." Industry bosses agree, noting that the flurry of projects now approaching commercial use were deemed viable and initiated a few years ago, when the oil price was closer to $40 a barrel.

For proof that industrial biotech is ready for the big time, look to Brazil. The country already has a large and efficient industry producing ethanol fuel from sugar cane. Now rival consortia are rushing to build plants to turn sugar cane into bioethylene. This is striking. Unlike many other industrial biotech efforts which target niche markets, this is an assault on the $114 billion market for ethylene, the most widely produced organic compound of all.

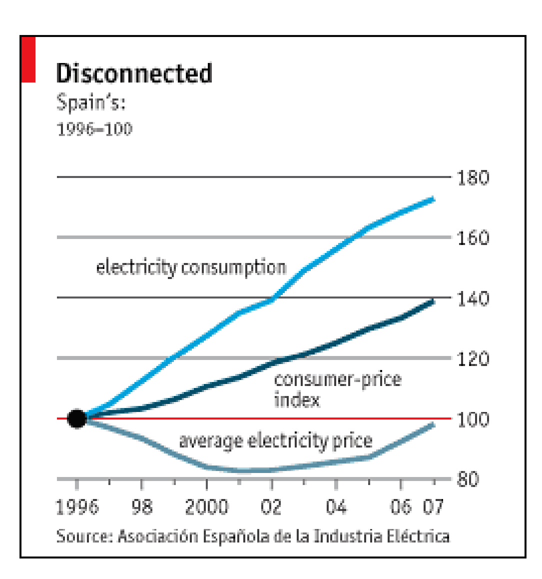
Erin O'Driscoll of Dow, a chemical giant now investing in Brazilian bioethylene, says the firm is confident the technology is ready for commercialisation. The chief reason for such optimism is that industrial biotechnology is better and cheaper than it was back in the heyday of chemurgy. Dow has even come up with a material made from soyabean oil that it plans to sell to carmakers to replace oil-based foam. Ford and his friend Carver would be proud.

Electricity in Spain

Price shock

Jun 26th 2008 | MADRID
From The Economist print edition

Unwinding a subsidy will not be easy



NEXT month Spaniards' electricity bills will go up—but not by nearly as much as they should. Electricity tariffs are regulated in Spain, and the government has kept prices artificially low. Prices have in fact fallen by 2% in nominal terms in the past ten years, and have dropped by 30% in real terms, even though the cost of generating electricity has shot up. Meanwhile, demand for electricity has soared.

Over the years, this has created a huge imbalance. Power companies have been forced to sell electricity at regulated prices that do not cover costs. The cumulative difference between what it costs them to produce power and what they are allowed to charge for it—the "tariff deficit"—has now ballooned to €14 billion ($22 billion), according to the Spanish National Energy Commission (CNE).

The industry minister, Miguel Sebastian, recognises that there is a problem. He has branded the system, which dates back to the previous administration, as "unreasonable and unfair" and says he wants to get rid of it. But he seems not to have the stomach to do so. Just to stop the deficit from getting bigger would mean raising prices by 20%, according to Unesa, the Spanish power-industry association. To repay it will mean increasing prices still further. Paying it back over the next 15 years would require price rises of nearly 35%.

That would be politically tricky at the best of times. But raising prices when Spain's economy is deteriorating and inflation is rising is even harder. Instead, the government has proposed an average increase of just 5.6%. Some families' bills will go up by as much as 16%, but poorer households will qualify for a cheaper "social tariff". Admittedly, some big industrial customers will start paying market prices from July 1st, and the rest will follow next January. But that will still leave roughly 40% of consumers paying artificially low prices.

In theory, the deficit should finally stop growing on January 1st 2011, the date set by the European Union for electricity-price liberalisation in Spain. But even then the government will still have some wiggle room. It can maintain a "tariff of last resort" for some households, though who exactly will qualify for it is unclear. "The risk is that the government could broaden the definition to include households that might not qualify," says Vicente López-Ibor, a former CNE board member.

Financing the deficit is also becoming a problem. In the past Spanish utilities could easily securitise the deficit in the debt markets and receive the money up front. But the credit crunch, and the deficit's size, is making this harder and more expensive. Investors are reluctant to lend against increases in future electricity bills, given the government's reluctance to raise prices.

The CNE, which is now in charge of co-ordinating the securitisation, managed to raise only half of the €2.7 billion it needed in the most recent debt auction. This means the power firms will have to wait longer to get paid, and will have to plug the gap out of their own pockets until then.

What can be done? Millions of Spanish consumers have inadvertently racked up nearly €14 billion in debt, plus interest. To stop the problem from spiralling further, the government will have to stop interfering in the price of electricity. If it also stripped out hidden costs, such as electricity taxes and renewable-energy subsidies, it would leave €2 billion-3 billion a year to cover production costs, by some estimates.

"The system needs to be made much more transparent and less interventionist," says Pedro Mielgo, an

energy consultant at Lovells, a law firm. Doing so will not be easy, but it would encourage a more efficient use of electricity.



Coal-bed methane

Canary in a coal mine

Jun 26th 2008
From The Economist print edition

A hostile bid highlights a new way of producing natural gas

MINERS and their canaries are used to thinking of natural gas as a potentially deadly impediment to digging up coal. It is present in many seams, and poses a danger to humans and birds alike. But gas is becoming increasingly scarce, while coal remains abundant, so many firms are reversing the normal pattern and harvesting the gas, but ignoring the coal. This business, known as coal-bed methane or coal-seam gas, first took off in America, but has now spread. On June 24th, in a sign that the industry had come of age, BG, a British energy firm (which shares a chairman with *The Economist*), offered to buy Origin Energy, Australia's largest coal-bed methane firm, for A$13.8 billion ($13.2 billion).

That represents a premium of some 50% over Origin's stockmarket value when BG first registered its interest in late April. But Origin's board has already rejected the bid, on the grounds that it undervalues the firm. Traders on Sydney's stockmarket seem to agree: they have pushed the price of Origin's shares as high as A$16.42, well above BG's offer of A$15.50 a share.

At the same time as Origin spurned BG's advances, it announced that it was increasing its estimate of its "proved" reserves of gas by 20% and its "probable" reserves by 91%, on the basis of an independent assessment. It cited those revisions, along with another recent deal that seemed to value coal-bed methane reserves more highly, as reasons to demand more, prompting BG to go hostile and make its case directly to shareholders.

Australia is awash with deals involving coal-bed methane. Earlier this year BG and Queensland Gas Company, one of Origin's rivals, agreed to build a plant to liquefy coal-bed methane and export it to Asia. Royal Dutch Shell, a huge oil-and-gas firm, and its local partner, Arrow, have similar plans. So do the pair in the deal Origin's board spoke of: Petronas, Malaysia's state-owned oil firm, and Santos, another Australian coal-bed methane outfit.

Coal-bed methane accounts for about 2% of the world's natural-gas supply. But in America, where the industry is most advanced, it provides about 10%. In countries such as China and India, which have huge coal reserves but little gas, the potential is enormous, says Cyrus Mewawalla of Westhall Capital, a research firm. What is more, points out Luke Warren, of the World Coal Institute, an industry body, capturing methane from coal mines prevents it from escaping into the atmosphere and contributing to global warming, and so in some cases qualifies for carbon credits backed by the United Nations.

But the industry is not without its problems. It uses (and can contaminate) a lot of water. Coal seams, like oilfields, vary hugely in their geology. Drilling techniques that work well in one place can fail in another. Coal seams in China, where Shell and its rivals Chevron and ConocoPhillips are pursuing coal-bed methane projects, appear to be less permeable than the norm, which makes it harder to extract the gas they contain. Mr Mewawalla argues that auditors and investors have been cautious about coal-bed methane's prospects for all these reasons. But as the industry establishes its record, he believes valuations will increase. That would give the canaries something to sing about.

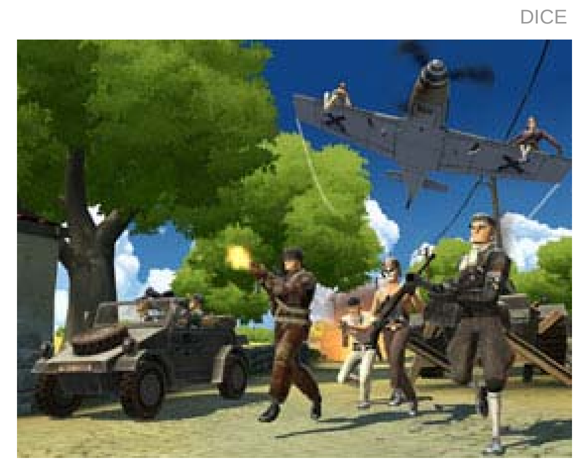
Video games

Asian invasion

Jun 26th 2008
From The Economist print edition

A new business model: give away the game and charge avid players for extras

DICE



Micropayments on the march

FOR millions of East Asians, online gaming is not so much a hobby as a way of life. “Massively multiplayer” online games such as “Legend of Mir 3” and “MapleStory” have legions of devoted fans who spend an alarming proportion of their waking hours sitting in front of their PCs, at home or in internet cafés, doing battle with elves, wizards and mythological beasts. Some players take their parallel gaming lives very seriously: one man murdered a friend in a dispute over a stolen virtual sword.

Many of these games rely on a business model that is different from the way the video-games industry works in the West. Rather than selling games as shrink-wrapped retail products which can then be played on a PC or games console, the Asian industry often gives away the software as a free download and lets users play for nothing. Revenue comes instead from small payments made by more avid players to buy extras for their in-game characters, from weapons to haircuts. In this way, a minority of paying customers subsidise the game for everyone else.

Now this model is being applied outside Asia. Electronic Arts (EA), a giant American video-games publisher, is preparing to release “Battlefield Heroes” (pictured), an online combat game with a slapstick sense of humour. It will be a free download but will, the company hopes, make money from both in-game advertising and the sale of character upgrades. Sean Decker of DICE, the EA subsidiary responsible for the game, says the game’s website is already attracting 60,000 visits per day, which bodes well for its launch later this summer.

PlayFirst, a publisher of “casual” games based in San Francisco, is already making a success of the micropayment model. “Diner Dash: Hometown Hero”, a game that involves running a chain of restaurants, allows players to buy extra levels, clothing and decorations online. John Welch, PlayFirst’s boss, says sales of such items now account for 10% of the company’s revenue.

Micropayments are already proving successful in the field of social networking, notes Piers Harding-Rolls of Screen Digest, a consultancy. He points out that Habbo—a self-styled “hangout for teens” that takes the form of a virtual hotel, and operates in 31 countries—generates the lion’s share of its revenue ($66m last year) from sales of virtual clothing, furniture and accessories.

For games, the Asian model has many benefits. It lowers the barrier to entry for new players by allowing people to play games without having to pay anything. And since the game’s software is usually given away, there is no need to worry about piracy—indeed, the more a game is copied and passed around, the better. Given the huge cost of developing the most advanced video games, however, the new model seems unlikely to push aside the traditional model of selling games on disc (or as paid downloads) any

time soon. But as gaming reaches out to new audiences, there may be more scope for new business models based on advertising and micropayments.

Business in China

On a roll

Jun 26th 2008 | WEIHAI
From The Economist print edition

To be a Chinese tyremaker is glorious

IT IS not, you would have thought, an auspicious name for a company that makes circular products. But Triangle Group, a big Chinese tyremaker, is flourishing even though the price of oil—the single most important ingredient in making and selling tyres—has reached record highs. Global passenger-tyre sales are growing by an average of 6% annually; Triangle's are growing by more than 20%. A smaller division producing the fat, knobby tyres used by construction, farming and mining vehicles is doubling production this year.

All this growth comes despite fierce competition. Triangle is one of only two Chinese companies that have anything approaching a global market share (about 1% in its case), but it has five serious domestic competitors, 20 medium-sized rivals and another 300 or so small ones. And that is before you consider the global triumvirate of Goodyear, Michelin and Bridgestone and a raft of smaller but still significant foreign firms, including Cooper, Pirelli, Continental and South Korea's Hankook.

It is a crowded field, but for the moment at least there is room for them all. Thousands of new cars spill out of Chinese factories onto its new (and instantly clogged) motorways every day, each needing four tyres, a spare and, eventually, replacements. Even with rapid growth, there are still only four cars for every 100 people in China, compared with 55 for every 100 in Germany, and 80 for every 100 in America.

What makes Triangle really interesting, however, is that, a bit like China itself, it has evolved from a state-run experiment into a genuine business. It will soon become one of a handful of noteworthy private firms to have emerged from the state. When Triangle was founded by the local Weihai government in 1976, the country was just beginning its transition from Mao to Deng Xiaoping, who famously said that "to become rich is glorious". There was no wealth, no domestic car market and not much need for tyres. Export success (of a very modest sort) was limited to tiny tyres for the hand-pushed rubbish carts used by street-sweepers in Indonesia.

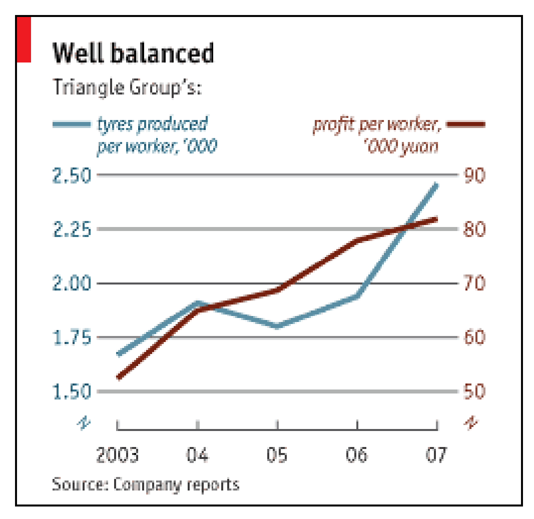
By 1993 Triangle had grown, but it was losing money, held huge inventories and had an awkward salary structure that distinguished between communist cadres and everyone else. And, as with many other state-owned firms, at this point it began to change dramatically.

A powerful chairman was installed who could run a business and negotiate the country's complicated politics. The company reworked contracts, imposed a new approach to discipline and rustled up money (presumably from Weihai, Triangle's parent) to invest in the production of modern radial tyres. Workers wear uniforms determined by rank, and every detail of operations, from the typeface to be used in correspondence, to the company song, to how a phone should be answered are recorded in an "enterprise culture" book. Order emerged, along with profits.

Triangle has undertaken a second restructuring over the past five years, to prepare for a public offering. Its accounts now meet Western standards; its factories are fitted with world-class manufacturing gear. Productivity has shot up (see chart). So too has quality, given that it has reached deals to supply Caterpillar and John Deere, as well as Goodyear's low-priced Kelly division in Asia. Even so, the ultimate endorsement—a deal to supply the original tyres to a Western passenger-car company—has so far eluded it.

The distribution of shares to individuals is part of all of these changes. It is safe to say that when the public offering takes place, some people at Triangle and in Weihai will join Mr Deng's circle of the gloriously rich—though who will benefit, and to what extent, will not become clear until the offering documents are filed. With the sale, control will shift from the government of Weihai to private investors.

There could be obvious benefits—money to hire new staff, build a brand, and consolidate a fragmented industry. But there will be a loss, too. Like other upstarts, Triangle has been a successful child of the government and a peculiar socialist system, with all that has meant in political and financial support. Weihai is a clean and well-run city on China's east coast, and Triangle has benefited from its association. After the public offering the interests of the city and the company will soon diverge, as, to some degree, will the interests of managers and employees. For a company in China, the problems that presents may be far more difficult to handle than merely building and selling a better tyre.



Retailing

Lotte ambition

Jun 26th 2008 | SEOUL
From The Economist print edition

A South Korean retailer plans a bold move into China

WOMEN in South Korea have a reputation for being some of the world's most demanding shoppers. Keen bargain hunters, they have an eye for quality and if something falls short of their expectations they are not shy of venting their anger. They photograph shops or goods that fail to make the grade, and post pictures online with detailed and withering criticism; the offender may then be shunned by other buyers. So exacting are the demands of Korean customers that Western firms often solicit their opinions of new products before launching them. If you can please a Korean customer, the feeling goes, you can please anyone.

Accordingly, South Korean department stores provide some of the best service in the world. With a smile and a bow, sales assistants scurry after customers, attending to their whims while calming their tearful children. Lotte, South Korea's biggest department-store chain, thinks its experience at home makes it ideally suited to serving the new rich in other fast-developing economies. In July it plans to open a huge department store in China, in the Wangfujing shopping district in Beijing. It has set an annual sales target for the store of $150m. The wealthiest customers will be granted special parking spots and will be guided around the store by personal attendants. (Appealing to the very rich works well for Lotte at home: its richest 1% of customers accounted for 17% of its $5.8 billion in sales last year.)

Lotte's Beijing store will be a test of the company's plans to launch nine more stores in other big Chinese cities. It has asked consultants to analyse the Chinese market and help it choose a combination of foreign and local brands to appeal to Chinese shoppers. Lotte plans to sell South Korean cosmetics and clothes, banking on the appeal of Korean pop culture, which is popular throughout Asia. Lotte's Beijing staff have been sent to Seoul to learn about its procedures, marketing and service.

But Lotte's experience in Russia, where it opened its first foreign store last September, suggests that expanding abroad may prove harder than it thinks. It has had to spend a lot on advertising, has found it difficult to attract experienced staff for its Moscow store, and has cut its annual sales target from $140m to $120m. It hopes China will not prove such a tough nut to crack, since the cultural differences with South Korea will be less pronounced. “Many retailers find China tough,” says Yi Il-min, Lotte's director of international business development. “We're quite comfortable.”

Gambling in America

A cut in the wages of sin

Jun 26th 2008 | LAS VEGAS
From The Economist print edition

Las Vegas's casinos have been on a roll. Is their luck about to run out?

THE media had a field day recently when Charles Barkley, a retired basketball player, was forced to pay a gambling debt of $400,000 owed to Wynn Resorts, a Las Vegas casino operator. It may seem churlish to chase a star as big as the "Round Mound of Rebound" for anything less than a seven-figure sum. But after a long boom, the industry faces a rare slowdown and belts are tightening across Sin City.

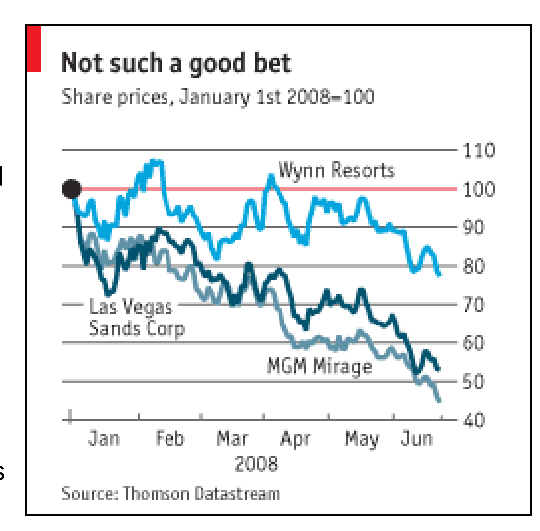
Gambling has long been considered all but recession-proof. Only twice have overall revenues on the Las Vegas Strip fallen since it took over from the downtown as America's gambling hotspot in the late 1980s—most recently after the attacks of September 11th 2001—and both dips were short and shallow. Gamblers, they say, will keep betting as the economy slows, still hoping for that big win.

But Vegas is less about gambling than it used to be. Today only 41% of its revenues come from betting, down from 58% in 1990. These days people are as likely to come for shopping, shows and fine dining as for blackjack or baccarat; the Forum Shops, at Caesar's Palace, has the highest sales per square foot of any American mall. Today's visitors are more likely to be worried by broader economic woes than the punters who used to flock to the city were, says Bill Lerner of Deutsche Bank.

The housing slump and high petrol prices do seem to be taking their toll. In the year to April, gaming revenue across Vegas was down by 3.3% from the year before. A dip in occupancy, usually an impressive 90-95%, has prompted hotels to cut room rates, reversing a steady rise in recent years to more than $135 a night on average. Sub-$100 deals at prominent Strip hotels have proliferated in recent weeks. Though hotels are still coy about advertising these bargains, MGM Mirage, the biggest Strip operator, is reportedly nudging local newspapers to run stories about them. This has raised concerns over a possible price war.

Nor can the city fall back on convention business, which has boomed in recent years. Attendance fell by 7.1% in the first quarter compared with a year earlier—a worrying sign because conference-goers spend twice as much per trip as pleasure-seekers do, though things picked up a bit in April. Las Vegas Sands Corp, the most convention-oriented of the big operators, posted an unexpected loss in the first quarter. Occupancy at its latest mega-hotel, the Palazzo, was a mere 79%. Harrah's dipped into the red too. Global gambling firms' share prices have fallen sharply this year because of fears over Vegas and signs that revenue growth in Macau, Asia's booming gambling capital, will slow (see chart).

All this coincides with the industry's biggest-ever building spurt, raising the spectre of oversupply. Wynn Resorts is building a $2.2 billion follow-up to Wynn Las Vegas, the Encore, and MGM is spending $9.2 billion on a 76-acre project called CityCenter. More than 40,000 new rooms will become available in the next four years, triple the number Beijing is providing for the Olympics—and in a city that already has 7% of America's hotel rooms.



Will it be possible to attract enough punters to justify this outlay? Mr Lerner is sceptical. It would require even zippier revenue growth between now and 2012 than that currently enjoyed by Macau. And it will be even harder if the overall take in Las Vegas falls this year and competition continues to increase within America, especially from Indian-owned casinos. Even without an economic slowdown, the rapid growth of the past two decades was unlikely to last. Mr Lerner sees return on capital dipping from 14-15% in recent years to 12% for the foreseeable future.

Some are reacting by cutting costs. Four hundred middle managers are being ejected from MGM, which

owns properties including the Bellagio and Mandalay Bay. But with even low-rolling customers expecting a high level of service these days, cutbacks are risky. Wynn Resorts' Steve Wynn has vowed not to pare back, saying he doesn't "give a damn" about short-term market implications. Analysts expect this sort of thing from Mr Wynn, who once regaled a shocked investors' meeting with several minutes of crooning.

The casino Titans are adept at dealing with shifts in demand, however. Led by Harrah's, whose boss, Gary Loveman, is a former economics professor, they have become experts in collecting information about their customers and using it to tailor promotions. Gambling firms also have a knack for carving out new markets. And they are ramping up marketing efforts abroad. The attractions of a weak dollar are clear, even to the unluckiest of European gamblers. "It's great. Every dollar I lose is only 50 pence," says Neil Gregory, a British property developer struggling to contain his deficit on the Luxor's roulette tables. Transatlantic business has also been boosted by boxing extravaganzas featuring European fighters.

Optimists reckon a weak economy and currency could boost domestic demand, too. If past downturns are a guide, a substantial number of Americans will head to Vegas rather than taking expensive holidays abroad, says David Schwartz of the Centre for Gaming Research. And the "whales", as high-rollers are known, really are immune to economic fluctuations. Some high-end casinos are doing even better this year than last, says Brian Gordon of Applied Analysis.

This leaves some convinced that Vegas will once again defy the sceptics, just as it confounded those who argued that it would be hurt by competition from Californian gambling dens, or that the wave of mega-hotel openings in the 1990s would create crippling overcapacity. History suggests that, in America's gambling capital at least, supply creates its own demand. But as the hopeful Mr Gregory points out: "The house doesn't always win."

Rare commodity

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From The Economist print edition

Anglo American



Kuseni Dlamini, Anglo American's new boss in South Africa, has worked his way up a white-dominated firm

AFTER almost three years at the helm of the largest coal-export terminal in the world, Kuseni Dlamini is about to return to his mining roots. On July 1st he will take on a new job as head of Anglo American South Africa, the global mining giant's subsidiary there. It will be something of a homecoming for Mr Dlamini, who has spent his entire career within the Anglo American and De Beers stable.

This makes him a rarity in South African business, where many ambitious black executives waltz from job to job at firms competing over a small number of talented black managers, or jump on the bandwagon of black economic empowerment (BEE)—the government redistribution scheme meant to redress the economic injustices of apartheid. Lazarus Zim, a previous boss of Anglo American South Africa, left in 2006 to set up a BEE investment firm after just a year in the job.

But Mr Dlamini has chosen to stay within one field and hone his skills over many years. "If South Africa is to prosper," he maintains, "we need a critical mass of competent, effective black managers" who can compete globally—the way top Indian or Malaysian executives do. Anglo American and De Beers operate in many different countries and industries. "I've always found the next challenge within the group more compelling than those from outside," says Mr Dlamini.

Yet life in a mining group long dominated by conservative South African white men has not always been easy. Over the years, many black executives found the corporate culture hard to stomach and departed, even before BEE started offering a faster route to riches. Mr Dlamini, blessed with a dogged determination, support from senior people inside and outside the group, and an ability to adapt to alien environments, stayed the course. He got used to being an odd man out at Oxford University, which he attended on a prestigious Rhodes Scholarship. "England was cold at first," he remembers, making it clear that he is not just talking about the weather. But studying there was ultimately a fulfilling and unforgettable experience that broadened his interests and taught him to remain a perpetual student.

Bobby Godsell, the former head of AngloGold, became one of Mr Dlamini's mentors after convincing him

to join the group in the mid-1990s, fresh from England's rain and libraries. But Mr Godsell sent him to De Beers, the diamond company in which Anglo American owns a 45% stake. "He thought that the gold division was too rough for an Oxford man. And he was right!" says Mr Dlamini. "When I was ready for gold, then I went for gold."

The arrival last year of Anglo American's new chief executive, Cynthia Carroll—an American who, unlike her predecessors, was not groomed within the group—has also changed the mood within Anglo. The board appointed Mrs Carroll to shake things up, and Mr Dlamini is determined to do his bit. His role in South Africa will be to advance Mrs Carroll's "one Anglo" vision—which involves instilling a common sense of purpose, direction and values across the group. He will also manage Anglo's relations with the South African government, local communities and civil society, which have in the past been prickly. And, much like Mr Zim before him, he hopes to bring more diversity into Anglo's ranks and groom a new generation of managers. Although Mr Dlamini will not have operational oversight of the mining businesses in South Africa, which range from platinum to coal, he will have a seat on the group's executive committee in London.

Mr Dlamini has experience on his side. During his two and a half years running Richards Bay Coal Terminal (RBCT) on the northern coast of KwaZulu Natal, Mr Dlamini has done much to improve tense relations with the government and the state-owned rail company that brings coal to the terminal. He pushed through the ambitious 1.1 billion rand ($137m) expansion plan that had been languishing for several years, tangled in red tape and rail problems. This will boost the coal terminal's capacity from 72m to 91m tonnes a year by 2009. Besides helping South Africa's gaping trade deficit, more exports means more coal mining, which should create 3,500 more jobs.

Back to the mine

At the same time, Mr Dlamini transformed RBCT, in which Anglo, along with Africa's other big coal producers, owns a stake. The company had long been seen as "a closed club dominated by the old boys of the mining sector," he says. Having previously exported only coal produced by its shareholders, it began opening up in 2003, setting aside an annual 4m tonnes of export capacity for smaller firms. But under Mr Dlamini's stewardship, emerging black-owned coal producers were brought in as shareholders, and more export capacity was earmarked for small companies. Thanks to shallow and abundant coal reserves, South Africa's coal industry includes a multitude of small companies desperately looking for access to export markets.

Mr Dlamini also helped make RBCT more commercial in its outlook, increasing efficiency and productivity. "It was time to run it as a business," he says. The terminal, which handles almost all South Africa's coal exports, is seen as one of the best-run in the world. Because RBCT is far from its export markets, it has to compensate by minimising the time-to-market through faster processing. Over 70% of its exports go to Europe.

In his new job Mr Dlamini will need drive, discipline and diplomacy. Calm and composed in person, he is equally at ease talking at the World Economic Forum about South Africa's "moral and commercial imperative" to lead innovation in clean-coal technology as he is addressing employees outside RBCT's offices, as monkeys hang from the branches of the tropical garden and eye the roast chicken served on paper plates. Mr Dlamini only loses his poise when asked about his age. "You can't ask me that!" he exclaims, and bursts out laughing.

Microsoft after Gates

After Bill

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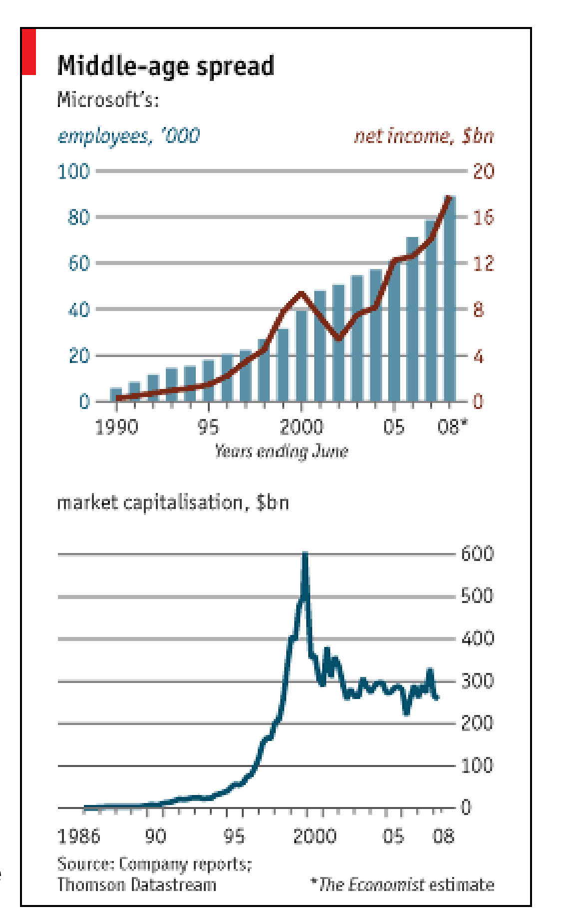
Microsoft knows what it wants to do when Bill Gates leaves—but the road ahead will not be easy

"DOES Microsoft still have a big, hairy audacious goal?" Not everybody would presume to ask Bill Gates a question like that. But Mr Gates was this week due to remove himself from the firm's day-to-day business, to become its non-executive chairman, and Tim O'Reilly, a noted internet guru, felt emboldened to commit *lèse majesté*. Putting "a computer on every desk and in every home" had been the original mission of Microsoft, which Mr Gates founded more than 30 years ago. But now the job is pretty much done, at least in the West, and Microsoft is the world's largest software company. What is its mission now, Mr O'Reilly recently asked at a technological shindig, called "All Things Digital"—other than just to sell as much software as it can?

Mr Gates (pictured with Craig Mundie, Microsoft's chief research and strategy officer, left, and Ray Ozzie, chief software architect, right) is leaving Microsoft for the charitable foundation he set up with his wife, Melinda, even as his firm is in some disorder. Windows, Microsoft's all-conquering operating system, has become so complex, some say, that it is collapsing under its own weight. Its latest version, Vista, is not a complete flop, but it is a huge disappointment. Many users prefer the previous one, XP, and Microsoft is already hyping the next, Windows 7. Microsoft is also struggling to keep up with Google, its main rival. It recently announced a product that pays consumers money if they buy something through an advertisement next to its search results—a gambit that smacks of desperation. And the firm's aborted bid for Yahoo!, an online giant, has done nothing to reassure investors. As a result, Microsoft's shares continue to do worse than the industry average. Some observers have started to wonder whether Microsoft should not break itself up—for instance into a legacy business, containing Windows and Office, a service unit, and games, where the company has recently been most innovative.

Mr Gates's reply to Mr O'Reilly was not entirely reassuring. The firm, he said, now has dozens of "quests"—revolutionising television, automating data centres and creating software ten times faster. Perhaps this fragmentation of Microsoft's ambition is only natural. In its 33 hectic years the company has swollen to nearly 90,000 employees (see charts); revenues this year should exceed $60 billion and net income reach almost $18 billion. Even Microsoft's own senior executives struggle to grasp its growing empire. The firm now sells 75 different products, many of them in lots of versions.

In fact Mr Gates could easily have given a more pointed answer. Of all that Microsoft hopes to achieve in the post-Gates era, one goal dominates all others—even catching Google. That is to become the dominant force in the forthcoming era of cloud computing—or, to refresh Microsoft's original mission: "to supply services to every desk, to every home and to every hand". That ought to be big and hairy enough to satisfy even Mr O'Reilly.



To understand what that means, and the difficulties it poses Microsoft, start with the idea that computing is undergoing one of its great periodic shifts. In its early days, most computing took place on mainframes. Ever-falling costs led computing to shatter—first into minicomputers, then into personal computers (PCs) and, more recently, hand-held devices. Now communications is catching up with hardware and software and, thanks to cheap broadband and wireless access, the industry is witnessing a pull back to the middle. This is leading much computing to migrate back into huge data centres. Networks of these computing plants form "computing clouds"—vast, amorphous, delocalised nebulae of processing power and storage.



Service with a simile

Marc Benioff, a cloud-computing pioneer and the boss of Salesforce.com, which helps firms manage their customers on the web thinks this will spell the "death of software". Rather than being a big chunk of code sitting on a hard disk on your desk, software will come "as a service" over the internet through a browser. This idea is also espoused by Google. Although the online giant is best known as the world's biggest online search and advertising firm, it now also offers many other services—plenty of which compete with Microsoft's PC programs.

Not so fast, says Mr Ozzie. He has been Microsoft's chief software architect since 2006 and will steer its technology after Mr Gates goes, while Mr Mundie will take over as the company's long-term thinker and public face. "Whenever these things happen, people think that it is going to be a complete extreme shift," Mr Ozzie says. "But in reality customers are very pragmatic and figure out the right mix of old and new stuff." This mix, he argues, will depend on where people are, which device they use and what they want to do. Instead of the death of software, Mr Ozzie speaks of "software plus services"—the title of Microsoft's new strategy.

He thinks of cloud computing differently. Fewer people will put the PC at the centre of their computing universe; it will be one of many devices connected through the web, which Mr Ozzie calls the "hub". But what sounds like bad news for a firm making PC software is in fact a huge opportunity, he says—because this new set-up sits well with Microsoft's DNA. The heart of its business has always contained a simple, powerful idea: find a market that is global in scale—one that is split between lots of vendors and so dysfunctional; then integrate the various parts into a "platform" and develop its chief applications; and finally, build an "ecosystem" of developers writing programs for it.

This has been Microsoft's approach to its largest products—with Windows as the most successful. Versions of this operating system run on over 90% of the 1 billion PCs in use, because Microsoft has excelled at building an ecosystem around its platform, in particular by giving developers the tools for their job. This supercharged what economists call "network effects": the more applications run on Windows, the more attractive it becomes for users; that, in turn, attracts more developers, and so it goes on. Although Mr Ozzie hesitates to put it in such terms, his goal is to create a kind of Windows in the cloud. "If you were to build an operating system today," he explains, "it would not be a single piece of software that operates a single computer."

He is first tackling device integration. In a recent internal memo, which Microsoft made public, Mr Ozzie talks of "a personal mesh of devices—a means by which all of your devices are brought together, managed through the web as a seamless whole." This mesh will make sure, for instance, that devices automatically synchronise important files, such as an address book, and that one device can control the others. Windows has other similarities with the platform Microsoft wants to build in the cloud. The firm plans to provide developers with tools to weave services together into new offerings. And it will give

them ready-made routines, such as checking a user's identity, tracking his location and processing payments.

The club in the cloud

As with all big ideas emanating from Redmond, Mr Ozzie's vision has provoked strong reactions. Here we go again, says one side, who think they have spotted a monopolist's latest plan for world domination. Welcome to the club, comes the retort from the other. Google, Facebook, Salesforce.com and others are already building similar platforms—Microsoft is just a Johnny-come-lately hedging its bets.

Needless to say, things are a bit more complicated. Mr Ozzie's plans amount to more than a dominant software company trying to protect its franchise. Building a platform for the cloud does not seem such a bad idea, since it is precisely what many in the industry are trying to do. Yet the cloud will be based more on open standards than on proprietary technology. It is too big and too diverse to be dominated by one provider. And governments would be unlikely to allow one firm to control such an important infrastructure.

As Mr Ozzie rightly points out, it is the very essence of the shift towards services, that computing now allows for applications and data to sit where it is technically most appropriate—or, just as important, where users prefer. And people are not about to throw out their powerful PCs or other "client" devices anytime soon, not least because they will sometimes be offline. Even Google is now offering software that allows its applications to be used off the internet.

The problem is that, so far, Microsoft does not have much to show for its plans, says Brent Thill, director of software research at Citi Investment Research. Take Windows Live, a collection of online services that in 2006 Mr Ozzie called the "hub to bring it all together". Many of Windows Live's services are derivative and few have a lot of users. Recently, Microsoft said that it will shut down some services, including Windows Live Expo, a listing service for classified advertisements.

Worse, Microsoft has not got much to show for its huge investments in online search, the killer application in Google's cloud. The firm's market share in search is only 8.5% in America, compared with Google's share of more than 60%. As a result, Microsoft's online-advertisement platform has not succeeded either. That matters, because even if companies pay for their cloud services, most consumer services will be funded by advertising. This explains why Steve Ballmer, Microsoft's boss, was prepared to pay $47.5 billion for Yahoo! The online giant would have been an "accelerator" in its quest to catch up with Google in search and advertising.

But those setbacks should not obscure that Microsoft has a plan—and is willing to put a lot of money behind it. It is spending billions to build a network of data centres, a huge infrastructure to cope with the expected demand for all its software-plus-services business. The company does not disclose how many computers now populate its server farms. It says only that it is adding 10,000 servers a month, which is roughly the total number used by a company like Facebook.

What is more, Microsoft has already spent the past couple of years writing software for its new platform. In April Mr Ozzie presented a first chunk, called "Live Mesh"—in his words, the "connective tissue that brings together devices in the cloud." It will enable users to synchronise files on lots of computers as well as to a web desktop in the cloud, for instance. More will come in the autumn, when Microsoft is likely to publish some new tools for developers.

Microsoft is further along with its new services than most think. Health Vault, launched in October, is not just a place where people can store their medical details online, but a service that can connect to all sorts of monitoring devices, as well as software used by hospitals and doctors. Microsoft is likely to come up with combinations of consumer and institutional data in other areas, such as education. It hopes they will become the killer aps of the new platform, rather as Word and Excel were for Windows.

Microsoft's familiar products are also being recast for the cloud. Sometimes the change is modest. The latest versions of Office, the software package that includes Word and Excel, enable users to share files and collaborate. Mr Ozzie argues there is no demand for a fully featured web-based version, (though, it has to be said, the old desktop-bound Office is one of Microsoft's biggest money-makers and one of the main reasons for people to use Windows). Other overhauls are more ambitious. Customers will soon have the choice of running Microsoft's business programs, such as its mail-server software, Exchange, on their own computers or in the cloud. Chris Capossela, who oversees this shift at Microsoft, expects half of the

mailboxes managed by Exchange to be online.

This flurry of activity in Redmond does not guarantee Microsoft success in the cloud. Top of the list of Redmond watchers' worries is the firm's culture and management. Mary Jo Foley, a long-time Microsoft correspondent, thinks it will lose something vital when Mr Gates walks out of the door. She concludes in her recently published book "Microsoft 2.0" that if "Microsoft were still the company it was ten or 20 years ago, with the simultaneously ruthless and cautious Gates at the helm," she would have "no qualms" about predicting its success.

The firm has become bloated, insiders say. "It's a huge problem. Microsoft has so much raw potential, but it needs extreme leadership to break out of the bureaucratic morass it encumbered itself with," says the book's foreword, written by "Mini-Microsoft", an anonymous blogger-cum-employee who is required reading for Microsoft watchers.

If Microsoft has made one excellent hire in recent years, it is Mr Ozzie. Although he is unlikely to become a public figure in the mould of Mr Gates, he is more in tune with a style of computing in which everything is connected. He understands that a take-no-prisoners attitude will get you only so far. Mr Ozzie is also level-headed, hands-on and a brilliant technologist. He himself wrote much of Lotus Notes, an early collaborative program, and came to Microsoft when it bought his latest start-up, Groove Networks, in 2005.

Yet some think Microsoft needs more fresh blood in its upper echelons. Although some veterans have recently left and some new executives have been hired, many senior positions are still filled by people who have been with the company for more than a decade, says Michael Cusumano, a professor at the MIT's Sloan School of Management and the author of a book on the inner workings of Microsoft. Can a veteran leadership team, he asks, foresee how the software business will change? And can it attract a new generation of employees to the company?

Billet doux

Microsoft is no longer the chosen workplace for many young geeks. Second-generation internet firms, such as Google and Facebook, have more "mind share". The same is true for investors and users, which is partly why Microsoft will launch a $300m rebranding campaign later this year. To make Microsoft hip again, the firm has hired one of America's coolest advertising agencies, Crispin Porter+Boguski.

EPA



Bye-bye, Bill

Microsoft's image is still tarnished by the antitrust saga of a decade ago, when it was judged to have abused its Windows monopoly. That would prove a more serious stain if it stops consumers from trusting the firm with their personal data, a necessary part of many cloud services. After similar antitrust woes, IBM took decades to shed its reputation for being overbearing and arrogant. It managed partly by becoming a champion of industry standards and open-source software.

Microsoft is treading a similar path. The firm has already changed—whether the American and the European antitrust actions have tamed it, or customers want different behaviour, or Microsoft has just grown up. It has become more open—it no longer wants to lock the world into its own proprietary technology. "We have matured a lot," says Mr Mundie, who spearheaded this opening-up.

Microsoft has indeed done many things that would not have seemed possible a few years ago. It has

embraced industry standards, published "interoperability principles" that guide its developers, and released thousands of pages describing how its programs work together, so that rival products can join in. To boot, Microsoft has accepted that open-source software is here to stay. It has adopted some of the techniques of volunteer developers, given them code and even put some open-source code in its programs.

Still, many do not believe in the new Microsoft. When *Information Week*, an American computing magazine, surveyed some 500 technology professionals, more than half said they thought that Microsoft's openness was mostly a publicity campaign. In a recent speech that was widely interpreted as taking a swipe at Microsoft, Neelie Kroes, the European Union's competition commissioner, said that governments and businesses would do well to use software based on open standards. And Matt Asay, a blogger and executive of Alfresco, an open-source software company, speaks for many in the open-source movement when he says that Microsoft "is the only major software company other than SAP that has not fully engaged with the open-source community."

Microsoft's approach to open source hints that the firm has not yet made up its mind what it wants to be. Even as the company seemed to have made peace with the other camp, signing licensing deals with open-source companies, it accused open-source software fans of violating 235 of its patents and threatened legal action.

The defining test of Microsoft's openness will be whether it tries to use its monopoly on the desktop to gain an unfair advantage in the cloud by tightly integrating—or "bundling"—software and services. Critics say the firm has already tried to favour its online search service in its Windows Vista operating system, but backed off when Google complained. Mr Mundie, however, is eager to offer reassurance: although Microsoft will make its software and services work well together, it will do nothing unlawful, he says: "The company has been quite clear how we are thinking about interoperability."

Microsoft is in transition. "The Road Ahead" will not be as straight or as smooth as it was on the cover of Mr Gates's bestseller, written in 1995. Yet Microsoft is unlikely to hit a wall, as IBM did after Mr Gates steered his own big shift in computing all those years ago—if only because Microsoft has a clearer view of the future. And if the worst happens, watch out for Mr Gates returning to put his creation back in the fast lane.

Capital inflows to China

Hot and bothered

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Despite strict capital controls, China is being flooded by the biggest wave of speculative capital ever to hit an emerging economy

Illustration by Satoshi Kambayashi



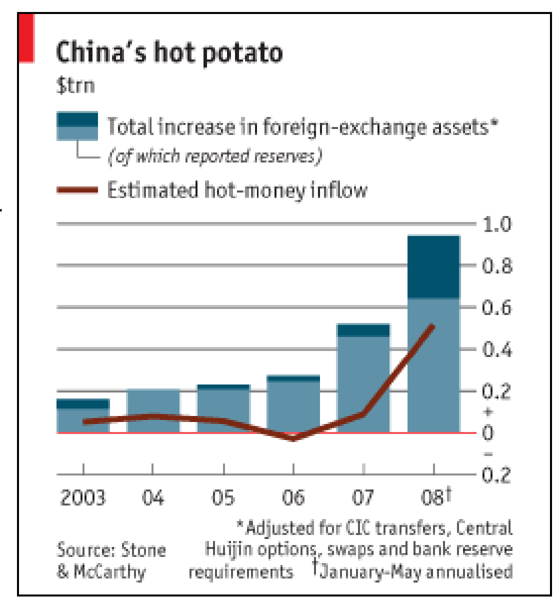
A POPULAR game this summer among watchers of the Chinese economy is to guess the size of speculative capital or "hot money" flowing into the country. One clue is that although China's trade surplus has started to shrink this year, its foreign-exchange reserves are growing at an ever faster pace. The bulk of its net foreign-currency receipts now comes from capital inflows, not the current-account surplus.

According to leaked official figures, China's foreign-exchange reserves jumped by $115 billion during April and May, to $1.8 trillion. In the five months to May, reported reserves swelled by $269 billion, 20% more than in the same period of last year. But even this understates the true rate at which the People's Bank of China (PBOC) has been piling up foreign exchange.

Logan Wright, a Beijing-based analyst at Stone & McCarthy, an economic-research firm, has done some statistical detective work to make sense of the figures. The first problem is that reported reserves exclude the transfer of foreign exchange from the PBOC to the China Investment Corporation, the country's sovereign-wealth fund. The reserve figures have also been reduced in book-keeping terms this year by the PBOC "asking" banks to use dollars to pay for the extra reserves that they are now required to hold at the central bank. Adding these two items to reported reserves, Mr Wright reckons that total foreign-exchange assets rose by an astonishing $393 billion in the first five months of 2008 (see chart), more than double the increase in the same period last year.

China's trade surplus and foreign direct investment (FDI) explain only 30% of this. Deducting investment income and the increase in the value of non-dollar reserves as the dollar has fallen still leaves an unexplained residual of $214 billion, equivalent to over $500 billion at an annual rate. Some economists use this as a proxy for hot-money inflows. But some of it may reflect non-speculative transactions, such as foreign borrowing by Chinese firms. Mr Wright therefore estimates that China received up to $170 billion in hot money in the first five months of 2008. This far exceeds anything previously experienced by any emerging economy.

Michael Pettis, an economist at Peking University's Guanghua School of Management, reckons that speculative inflows during that period were perhaps well over $200 billion, because hot money also comes into China through companies overstating FDI and over-invoicing exports. Foreign firms are bringing in more capital than they need for investment: the net inflow of FDI is 60% higher than a year ago, yet the actual use of this money for fixed investment has fallen by 6%. Some of it has been diverted elsewhere.



It is one thing to deduce how much money is coming in. It is another to work out where it is going and how it gets past China's strict capital controls. The stockmarket, which continues to plunge (see article), is no home for hot money. Some has gone into property. The lion's share is in bog-standard bank deposits. An interest rate of just over 4% on yuan deposits compared with 2% on dollars, combined with an expected appreciation in the yuan, offers a seemingly risk-free profit for those who can get money into China.

It comes in via various circuitous routes. Big Western investment funds which care about liquidity would find it hard to move money into China, although rumours abound of hedge funds that are investing money through Chinese partners. Trade and investment offers a big loophole for Chinese and foreign firms. Resident individuals can use the $50,000 annual limit for bringing money into China from abroad—many also use their friends' and relatives' quotas. Another big loophole lets Hong Kong residents transfer 80,000 yuan ($11,600) a day into mainland bank deposits.

The government is trying to crack down, but that risks shifting the activity towards underground money exchangers. And if the government were to increase its monitoring of FDI and trade flows, the extra bureaucracy could harm the real economy. China needs to reduce the incentive for destabilising capital inflows, rather than block the channels.

Massive hot-money inflows present two dangers to China's economy. One is that capital could suddenly flow out, as it did from other East Asian countries during the financial crisis a decade ago and Vietnam this year. China's economy is protected by its current-account surplus and vast reserves, but its banking system would be hurt by an abrupt withdrawal.

A more immediate concern is that capital inflows will fuel inflation. The more foreign capital that flows in, the more dollars the central bank must buy to hold down the yuan, which, in effect, means printing money. It then mops up this excess liquidity by issuing bills (as "sterilisation") or by lifting banks' reserve requirements. But all this complicates monetary policy. China's interest rates are below the inflation rate, but the PBOC fears that higher rates would attract yet more hot money and so end up adding to inflationary pressures. The central bank has instead tried to curb inflation by allowing the yuan to rise at a faster pace against the dollar—by an annual rate of 18% in the first quarter of this year. But this encouraged investors to bet on future appreciation, exacerbating capital inflows. Since April the pace of appreciation has been much reduced, in a vain effort to discourage speculators.

Mass sterilisation

Some economists argue that the problems caused by hot money have been exaggerated. After all, the PBOC has so far succeeded in sterilising most of the increase in reserves. Inflation, at an annual rate of 7.7% in May, has also started to decline, and the impact of last week's rise in fuel prices is likely to be offset over the next couple of months by falling food-price inflation.

The snag is that money-supply growth would explode without sterilisation, which is now close to its limit. It is becoming very costly for the central bank to mop up liquidity by selling bills, so it is now relying more heavily on raising banks' reserve requirements (the PBOC pays banks only 1.9% on their reserves, against over 4% on bills). Since January 2007 the minimum reserve ratio has been raised 16 times, from 9% to 17.5%. But it cannot climb much higher without hurting banks' profits. To curb future inflation, China therefore needs to stem the flood of capital.

One solution would be a large one-off appreciation of the yuan so that investors no longer see it as a one-way bet. This, in turn, would give the PBOC room to raise interest rates. The snag is that the yuan would

probably have to be wrenched perhaps 20% higher to alter investors' expectations, and this is unacceptable to Chinese leaders, especially when global demand has slowed and some exporters are already being squeezed.

This implies that monetary policy will remain too loose. The longer that the torrent of hot money continues and interest rates remain too low, the bigger the risk that underlying inflation will creep up.

Japanese banks

On the prowl again

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Spared big subprime losses, Japanese banks are looking abroad

ALMOST two decades ago seven of the world's top-ten banks were Japanese and their cheap loans supported Japanese investment, from the Rockefeller Centre in Manhattan to California's Pebble Beach golf course. After Japan's property and stockmarket bubbles burst, the banks, buckling under bad debts, retreated home. More recently, the caution born of that fall from grace spared them the huge subprime-loan losses that have hobbled their American and European peers. Now their relative financial health has pushed Japanese banks tentatively abroad again.

On June 25th Sumitomo Mitsui Financial Group (SMFG) said it would invest about £500m ($975m) in Barclays, as part of a broader £4.5 billion fundraising by the British bank (the remainder came from national funds of Qatar, Singapore and China, and the bank's shareholders). It follows a $1.2 billion investment by Mizuho Financial Group in Merrill Lynch in January. In recent months SMFG has acquired a stake in a bank in Vietnam, and Bank of Tokyo-Mitsubishi UFJ (known as MUFJ), the country's largest bank by assets and market value, has bought stakes in banks in Hong Kong and Singapore.

The three Japanese "megabanks" are once again dabbling in international lending, too. They grabbed some of the market for syndicated loans from cash-strapped Western banks. And their overseas loans increased between 2007 and 2008 by 10% at Mizuho, 20% at MUFJ and a handsome 45% at SMFG. After years on the sidelines, Japanese banks are being invited to help finance big deals, like InBev's bid for Anheuser-Busch, a rival brewer.

Going abroad is attractive for Japan's big three, because the domestic market offers such meagre returns. Economic growth is low, interest rates are almost zero and lending is stagnant; around 40% of Japanese listed firms are almost debt-free. At the same time, the banks are once again profitable. And they are sitting on huge piles of cash. The Japanese are notorious savers; of the $15 trillion in household financial assets, slightly more than half is tucked away in bank deposits earning almost no interest. There is too much liquidity, explains Brett Hemsley of HSBC in Tokyo. The banks generate more capital than they can use at home, he says, so they have no choice but to go overseas.

Luckily, they did not move sooner. Ever since the Japanese bubble burst in the early 1990s, they have looked inward and focused on rebuilding their domestic operations. This saved them from the worst of the subprime-related credit crunch. Mizuho reported around $6 billion of subprime-related losses; SMGF and MUFJ lost around $1 billion apiece. That is a pittance considering the $400 billion or so of losses and write-downs at the world's banks from the credit crisis as a whole.

As the banks' horizons have expanded, so has their international share ownership. In 2002 almost 40% of their shares were owned by Japanese companies (a legacy of post-war cross-shareholding); by 2007 the figure dropped to less than 20%. Meanwhile the holdings of foreign investors have increased from around 10% in 2002 to 30-40% last year. Their share prices have recently soared. Since April Mizuho's shares have risen by 40%, SMFG's are up by 25% and MUFJ's have gained around 10%.

The investments in the Western banks mark a stunning reversal of fortunes that few would have predicted as little as a year ago. In 2003 Merrill Lynch invested more than $1 billion to help UFJ unwind its financial mess, and Goldman Sachs put $1.3 billion behind SMFG (which, as Sumitomo, invested $430m in the Goldman Sachs partnership for a 12.5% stake in 1986).

Having come back from the brink so recently themselves, the Japanese bankers may well believe that they know how to spot a bargain. SMFG is attracted to Barclays, believing that it has reliable revenue from its British retail operations (and the Japanese bank hopes the two can co-operate in new areas, such as wealth-management in Asia). MUFJ has yet to make a big move, though it is thought to be considering an acquisition. Of course the deals themselves, at around $1 billion apiece, are hardly more than a toe in the water. But it is just that conservatism that has recently worked to Japan's banks' advantage.

Buttonwood

Losing their halo

Jun 26th 2008
From The Economist print edition

Illustration by Satoshi Kambayashi



Emerging markets start to falter

CONFIDENCE has begun to crack in emerging markets. Earlier this year, many people had still dared to hope that much of the developing world would decouple from the slowing American economy. But it has achieved this feat rather too well. There are signs of overheating; most developing economies are grappling with, and so far failing to defeat, the inflationary effects of high oil and food prices. Last year's stockmarket darlings, China and India, have fallen sharply.

Governments and central banks have been forced into some difficult decisions, such as reducing fuel subsidies. That policy shift, though welcomed by lovers of free markets (if not the public), has pushed up headline inflation. Standard Chartered calculates that the GDP-weighted inflation rate for 11 big Asian economies was 6.8% in April, up from 3.5% a year ago.

Some central banks are reluctantly opting to tighten monetary policy. India's was the latest, raising interest rates for the second time in a month on June 24th, even though higher rates will mean slower economic growth. But central banks will be damned either way. Any country that fails to raise rates enough to keep inflation under control will scare away investors. South Africa and Vietnam have failed to keep the lid on prices and have been duly punished with a depreciating currency.

As the economic problems have mounted, more than $2 billion has been taken out of emerging-market funds in each of the past two weeks. The surprise, perhaps, is that emerging markets have not performed even more poorly; the MSCI emerging-markets index's 12.4% decline so far this year is only a little worse than the return of the global market.

Emerging markets benefit from the heavy weighting of commodity-related stocks in the index (more than a third, according to Merrill Lynch). The overall market is unlikely to plummet when mining and energy stocks are holding up so well.

The corollary, however, is that emerging markets will be vulnerable if commodity prices tumble. "Earlier in this decade, conditions were ideal for emerging markets, because commodity prices were going up and local interest rates were going down," says Michael Hartnett, a strategist at Merrill Lynch. "Now interest rates are rising and there is the risk that commodity prices could at some point correct."

Emerging markets may also start to lose the halo they have recently worn with such pride. When the

credit crunch began last summer, they were talked up as the new “havens”. After all, enthusiasts pointed out, it was they that now had the current-account surpluses and America that was depending on overseas investors.

Not all emerging markets, though, were such paragons. Even though the developing world had improved its economic performance in aggregate, many countries with iffy records got a “free pass”, thanks to the general improvement in sentiment. Indeed some vulnerable countries, such as Turkey, benefited from the “carry trade” as investors piled into their currencies because of their high interest rates.

Now investors are starting to differentiate between the weak and the strong, singling out those countries (such as the Baltic nations) where the economic imbalances look egregious. The downside of the carry trade is emerging; those high interest rates are on offer because of the risk of inflation or currency depreciation.

At least emerging-market equities look rather less pricey than they did a year ago. They are trading on a small price/earnings (p/e) premium to the world index, but the gap is much smaller than it was in 2007. The Chinese market is now on roughly the same historic p/e ratio (17) as America, and if you believe forecasts of 28% earnings growth this year and 30% next, might even be cheaper.

But then again, emerging markets probably should trade at a discount, as they have for much of the past 20 years. After all, central banks in the developing nations have a far worse record in balancing inflation and growth than, say, the Federal Reserve.

Nor should blind faith in the faster growth prospects of emerging markets give investors comfort. Figures from James Montier, a strategist at Société Générale, show that GDP growth and real returns from emerging markets have been negatively correlated over the past 20 years. In other words, the fastest-growing economies produced the lowest returns for shareholders.

Emerging markets may not face the same risks as they did a decade ago, when hot money fled in response to the Asian crisis. But the risks have changed rather than disappeared.

Economist.com FINANCE & ECONOMICS

Bank of America and Countrywide

Fingers crossed

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From The Economist print edition

Is one of the credit crunch's seminal deals inspired or insane?

Reuters



THE best banking deals are done in bad times. Think of the fortunes made in the wake of America's savings-and-loan debacle, or by the acquirers of Japan's Long-Term Credit Bank, since renamed Shinsei. But gambles taken in the fog of a financial crisis can also prove horribly misguided. Which of the two is Bank of America's embrace of Countrywide, due to close on July 1st?

The $4.1 billion deal, announced in January, was a dramatic moment in the credit crunch. By stepping in to rescue America's largest mortgage lender after injecting $2 billion into it in August, BofA helped to calm fraught markets. Countrywide's copious subprime woes ensured a low price: a mere sixth of its stockmarket value before the crunch. But what looked like a steal is now widely viewed as a stinker, thanks to still-accelerating falls in house prices. Nevertheless, BofA has resisted calls to renegotiate, insisting it can make the deal work (and unsure whether it would have grounds to pull out anyway).

Countrywide's balance sheet is not pretty. Of its $95 billion loan book, more than a third is home-equity lines of credit and second-lien mortgages, both much riskier than the typical home loan. Assets in foreclosure or delinquent, up fivefold from a year ago, continue to climb. The lender will also have to take back the worst of the loans it sold on. And it will have to fork out billions to settle accounting probes and numerous legal disputes. The latest blows are three separate suits from the states of Illinois, California and Washington, targeting its lending practices. They were filed on the same day that shareholders gratefully approved the BofA deal. No wonder the Countrywide name is to be dropped.

Paul Miller, an analyst with FBR Capital Markets, thinks BofA could face $20 billion-30 billion of write-downs when Countrywide's loans are marked at "fair value", as they will have to be under acquisition-accounting rules. This would far exceed estimates when due diligence was performed, and could force BofA to raise new capital. The fair-value issue is one reason why other troubled lenders, such as National City, have failed to find buyers.

Ken Lewis, BofA's boss (pictured above), has admitted that things are worse than expected. But he insists the bank left plenty of room for error and that the deal remains "compelling". It has a cushion of around $13 billion: the difference between the purchase price and Countrywide's tangible book value. It remains confident losses will be within sight of that number. If so, it will get the franchise for a song and not have to raise more equity (on Countrywide's account, at least).

Countrywide still has much to offer. Its mortgage-origination network and technology are both formidable. Its giant servicing business, which collects payments and passes them on to investors, is struggling, but could still be worth more than $3 billion on its own. Critics have "lost sight of the fact that such services are very difficult to replicate," says Dick Bove of Ladenburg Thalmann, an investment boutique.

Mr Lewis has long wanted to expand in mortgages, the only "cornerstone" retail-banking business in which his bank is not a force. This deal gives it 20-25% of the American market. It also offers a chance to flog BofA cards, insurance and investment products to Countrywide customers. And it handily allows the bank to sneak past a 10% limit on national deposits. Regulators, desperate to see Countrywide in good hands, seem happy to turn a blind eye.

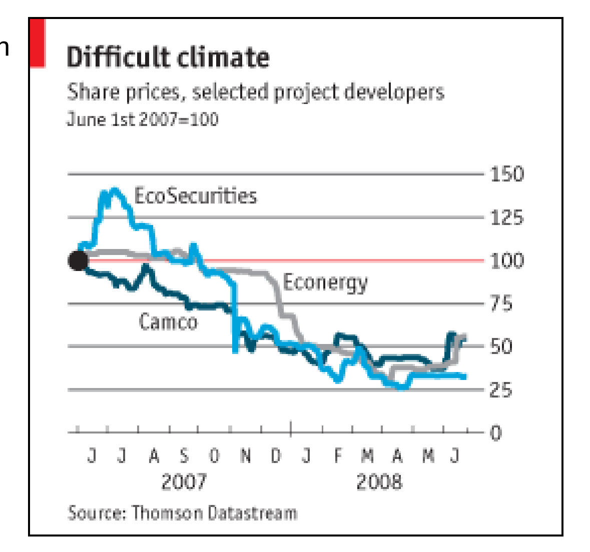
So it may yet prove a masterstroke, if BofA's number-crunchers have got their sums right. But that is a lot to ask in the middle of a storm.

Emissions trading

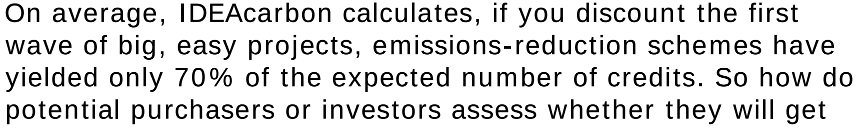
Creditworthy

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A new rating agency aims to separate emissions reductions from hot air



EMISSIONS trading, says Ian Johnson of IDEAcarbon, a research firm, "is not an easy concept to understand". Indeed, the process whereby the United Nations assesses projects that reduce emissions of greenhouse gases and issues their owners with a corresponding number of tradable credits is so confusing that not even its main practitioners, the firms that develop the projects, seem to have got the hang of it. Over the past year, the regulators at the UN have been questioning and rejecting a higher share of projects. The project developers, in turn, have had to reduce their estimates of the number of credits they will receive, contributing to sharp falls in some of their share prices (see chart).



On average, IDEAcarbon calculates, if you discount the first wave of big, easy projects, emissions-reduction schemes have yielded only 70% of the expected number of credits. So how do potential purchasers or investors assess whether they will get the credits they are counting on? The answer, as far as IDEAcarbon is concerned, is a new sort of rating agency that will evaluate just how creditworthy, so to speak, each project is.

The market for such a service, Mr Johnson argues, will be huge. Last year alone investors poured almost $8 billion into offsets that they hope will pass muster with the UN. By 2030, says Nicholas Stern, a climate-change guru and vice chairman of IDEAcarbon's parent firm, the market for such offsets could easily be in the order of $1 trillion. No one likes to spend that sort of money, he points out, without a few checks and balances.

But rating agencies do not have a brilliant track record with new, relatively untested products such as emissions credits. After all, overly generous ratings awarded to newfangled mortgage-backed securities helped to spark the credit crisis. What is more, the UN's entire system of climate offsets is due to expire along with the Kyoto protocol in 2012. Lord Stern and his colleagues at IDEAcarbon say they are confident that something similar will replace it. But they have not assigned a rating to that prediction.

Economist.com FINANCE & ECONOMICS

Banking

Tread carefully

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From The Economist print edition

A credit downturn should be familiar territory for banks. Think again

Illustration by Satoshi Kambayashi



THE credit crunch has been an alien landscape for many banks. Exotic products, new accounting rules and an unprecedented liquidity freeze have left them groping for handholds. The terrain is gradually changing, as attention switches away from falls in the market value of securities and towards actual credit losses. Citigroup expects to see lower write-downs, but higher credit losses, when it announces its second-quarter results in July.

Industry-watchers see some relief in this. “We will all feel more like we are in our comfort zones after a six-month period of firefighting on structured-credit blow-ups,” analysts at Merrill Lynch sighed in a recent note. Not so fast. In Britain and America, the countries with the biggest headaches, the credit downturn has plenty of unfamiliar features.

The scale of the boom that came before it is the most obvious one. Anglo-Saxon consumers are famously carrying record amounts of debt. Exposure to commercial property has also reached disturbing proportions at many banks. The picture is grimmer in America, where concerns about unemployment are greater and consumer confidence is badly dented, but the economic environment is worsening fast in Britain too. “People have to start rebuilding their own balance-sheets,” says Adrian Cattley, an analyst at Citigroup.

Banks are also dealing with new types of borrowing. In Britain untested areas of specialist lending, such as buy-to-let and self-certification mortgages, are coming under stress for the first time. HBOS, the country’s biggest lender, revealed in June that arrears in these asset classes had risen much faster during the first five months of the year than among prime borrowers.

In America worries are focused on home-equity lending, an asset class with more than $1 trillion of outstanding balances. As homeowners fall into negative equity, these loans are the first to suffer, turning from secured to unsecured borrowing. Unlike subprime mortgages, which were sold on to other unfortunates, banks tended to keep home-equity loans on their books. And to get at the collateral, they have to buy out the lenders of the primary mortgage first, an expensive and risky process. Write-offs on home-equity loans are either zero or 100%, says Michael Zeltkevic of Oliver Wyman, a consultancy.

In theory, none of this should change the map that bankers usually follow when the credit cycle turns: tighten lending criteria, make provision for losses and try to stop struggling borrowers from defaulting. In practice, things are now much more finely balanced.

Start with lending criteria. According to the Office of the Comptroller of the Currency, large American banks tightened credit standards for the first time in four years in 2007-08. But tighter credit is making life harder for existing borrowers.

This problem is more widespread in Britain, where variable-rate mortgages have always been more common than in America (even if fixed-rate mortgages have made up ground since the last big property slump in the early 1990s). Analysts at Morgan Stanley reckon that 23% of the total stock of British mortgages by value is due to reset in 2008, against a mere 4% of stock in America last year. But the effects are more acute in America, where higher rates have savaged risky borrowers, who make up more of the market than ever before.

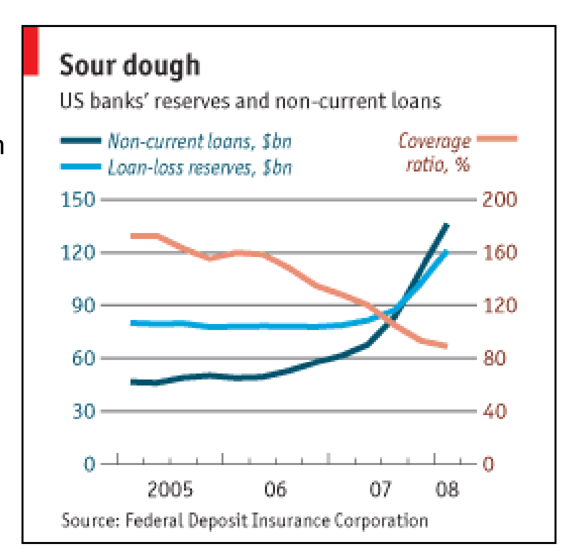
It does not help matters that record fuel costs are also guzzling more of consumers' disposable income—some think that car-loan defaults may grow as drivers decide to throw their car keys in the same dustbin as their house keys. Inflationary worries are expected to send interest rates higher again (which has also muted hopes of an earnings boost from a steeper yield curve, the difference between long- and short-term interest rates).

It is not in banks' interests to send their borrowers to the wall, of course, but their ability to be flexible is more limited because of the credit crunch. Higher financing costs on the interbank market make it harder for them to be accommodating to customers. And untapped loan commitments to corporate customers continue to crowd out space on banks' balance-sheets. Analysts at Citigroup reckon that there is a $6 trillion overhang of committed lending facilities to be drawn down, most of it at more generous terms than borrowers could get now. Bankers report that corporate customers, who know a good thing when they see it, are not interested in refinancing. Lenient loan terms will soften default rates among companies, which are nevertheless expected to rise sharply, but the cost may well be even more abrupt tightening in consumer lending.

Blame the beancounters

Just as mark-to-market valuations fuelled write-downs on securities, so new accounting practices are adding to the pressure on banks' loan books. In the past, banks used to plump up their loan-loss reserves when times were good, but worries about earnings manipulation in the wake of the Enron and WorldCom scandals put a stop to that. Provisions now have to be inflated in a hurry, which adds to the drag on earnings. In America commercial banks set aside $37.1 billion in reserves in the first quarter of 2008, more than four times the amount tucked away in the same period of 2007. Yet still more needs to be done: the "coverage" ratio of reserves to delinquent loans dropped last quarter, as credit conditions worsened (see chart). Procyclical provisioning is the second chapter in the mark-to-market story, says Mark Rennison, the finance chief of Nationwide, Britain's second-bigger mortgage lender.

It is not all bad news. In both Britain and America the real problems are in the specialist businesses; prime borrowers face headwinds rather than tornadoes. British homebuyers do not face the same steep rises in interest rates that they did during the 1990s downturn. The American housing market is less bad in some places than in others. Banks have been successful at raising capital so far, although that will get harder the more often the begging bowl comes around. But for the first time since the crunch began, you might just prefer to be the boss of an investment bank rather than a commercial one.



Economics focus

Grim expectations

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From The Economist print edition

Expectations of inflation have risen. How worried should central bankers be?

IN 2002 John Taylor, a well-known monetary theorist, gave a speech in honour of Milton Friedman, the great economist who died in 2006. Mr Taylor described how the low and stable inflation of the previous two decades emerged from a more disciplined monetary policy, inspired in part by Friedman's analysis. "In the United States when the inflation rate approached 4% in 1968, the federal funds rate was about 5%. When the inflation rate approached 4% in 1989, the federal funds rate was about 10%, clearly a much larger response." Once again, America's inflation rate is at 4% but the fed funds rate is just 2%. With inflation high and interest rates low, many are worried that the lessons set out by Mr Taylor and by Mr Friedman before him are being ignored.

If policymakers have until recently seemed remarkably relaxed about higher inflation, that is because it reflects a jump in the cost of oil and food rather than a broad acceleration in prices. When commodity prices shoot higher, the standard policy response is to treat the resulting rise in inflation as a once-and-for-all shift in relative prices. An interest-rate increase big enough to squeeze inflation back down in short order would cause a needlessly large rise in unemployment. As long as expectations of future price changes are stable, policymakers can breathe easily. Firms and workers are unlikely to push other prices and wages higher, and so the surge in inflation will soon pass.

This textbook account puts expectations at the heart of the inflation process. Until recently, central bankers have looked on the stability of inflation expectations with satisfaction. The public seemed to trust that independent monetary stewards would not be tempted, as politicians might be, to keep interest rates too low to control inflation. Now, however, inflation expectations have started to pick up sharply, which is putting the credibility of central bankers to the test. On June 25th the Federal Reserve's open-market committee kept American interest rates on hold. Though it acknowledged that upside risks to inflation and inflation expectations had increased, it gave no hint that higher rates were imminent. This suggests that inflation expectations are, perhaps, not as central as they were once assumed to be.

There are two main ways of divining expected inflation, each with its own flaws. The first is to ask people what they think the inflation rate will be. Recent replies are worrying. A survey by the University of Michigan shows that inflation is expected to be over 5% in the next year, the strongest reading since 1982. In Britain expectations have risen to their highest level since the central bank's survey began in 1999. A poll of the euro area, done by the European Commission, also shows a rise in the balance of consumers expecting higher inflation (see left-hand chart, below).



One reason to question these shifts is that consumers' perceptions often differ from reality. Expectations shot up in the euro area around the time when retail prices were first quoted in the new currency, but the feared inflation never materialised. Consumers may be overly sensitive to changes in the price of frequent purchases, such as food and fuel, while they overlook the stability of other prices. As the effect of the commodity shock fades, expectations are likely to follow recorded inflation back down again. Another frequent complaint is that expectations are usually measured one year ahead when, arguably, what matters are people's beliefs about medium-term inflation. Then again, where indicators on these are available, there are hardly encouraging. Expected inflation for the next five to ten years is 3.4%, the highest since 1995, according to the Michigan survey.

Measures derived from financial markets may be less volatile, but have shortcomings of their own. An established gauge is the yield gap between conventional and index-linked bonds. Inflation expectations are implied by the extra return investors demand to forego protection against future price increases. On this basis, they are increasingly nervous about the inflation outlook in the euro area and especially in Britain (see right-hand chart, above).

One problem with such gauges is that they are based on nominal bond yields, which include a risk premium for inflation's volatility. Another is that the pool of index-linked bonds is much smaller, and thus less liquid, than that of regular bonds. When investors are nervous, they will accept lower yields in exchange for the liquidity that conventional bonds offer. This pushes down implied inflation rates, particularly in America's bond market. The Federal Reserve Bank of Cleveland publishes a series which, after adjusting for these inflation-risk and liquidity premiums, lifts expected inflation to 3.3%, from 2.5%. By contrast, market-based measures in Britain may exaggerate inflation fears. Pension funds are eager buyers of index-linked assets, because the rules require them to buy securities to match their commitments to protect some pensioners against inflation. That pushes down real yields and pushes up implied inflation expectations.

Dragging anchor

However imprecise the measures of inflation expectations, central banks in America, the euro area and Britain have all said it is important to keep them anchored. But in a speech on June 9th Ben Bernanke, the Fed chairman, admitted to gaps in knowledge about how the actions of central banks affect inflation expectations and how these affect inflation. The focus is usually on the threat of a wage-price spiral. Since workers care about real wages, expectations of higher inflation may lead to bigger wage claims, push up employers' costs and create the very inflation that employees fear. Yet little is known about what firms expect inflation to be and how, if at all, these beliefs influence pricing decisions.

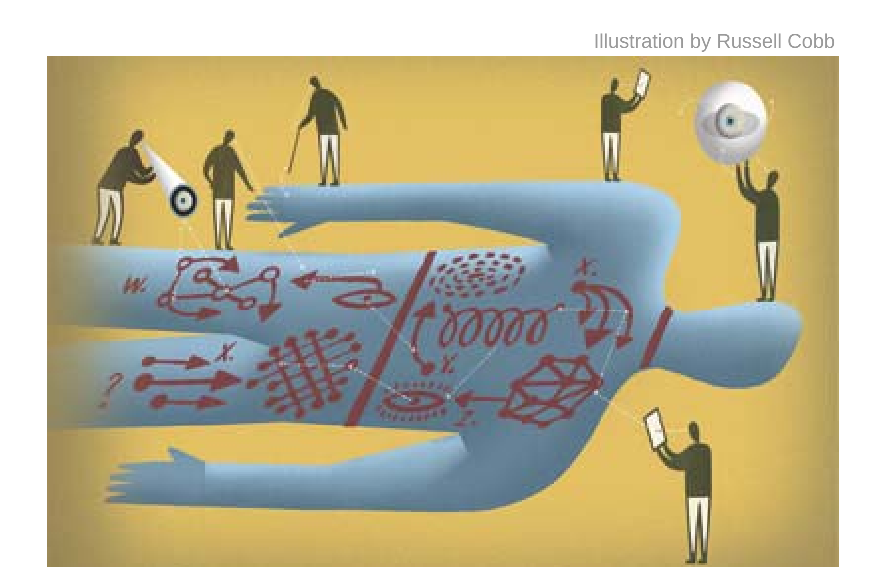
If an inflation psychology is returning, not all the rich world's central bankers appear to be treating it with the same degree of fear. Only the European Central Bank has signalled that it will raise interest rates. Its American and British counterparts may be right in judging that inflation expectations will be attenuated by an economic slowdown, and flexible labour and product markets. If they are not, they run the risk of squandering the credibility their predecessors earned at such a high price.

Metabolomics

Signs of a long life

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Illustration by Russell Cobb



Rummaging through the by-products of cells and looking for patterns could help to unlock the secrets of better health

PERSONALISED medicine offers a huge promise. It would, in theory, be possible to identify what diseases someone risks getting as they age, predict how those diseases will progress and show how they will respond to therapy—all before any symptoms are present. And by doing this early, it could mean that those diseases are easier to treat. It is the sort of medical crystal-ball gazing that was supposed to be one of the benefits of the Human Genome Project, although it is still a long way from yielding the benefits promised on its behalf. However, there is another "-ome" that contains a vast amount of information about a person's health and now its secrets are starting to be unravelled too.

Metabolomics studies metabolites, the by-products of the hundreds of thousands of chemical reactions that continuously go on in every cell of the human body. Because blood and urine are packed with these compounds, it should be possible to detect and analyse them. If, say, a tumour was growing somewhere then, long before any existing methods can detect it, the combination of metabolites from the dividing cancer cells will produce a new pattern, different from that seen in healthy tissue. Such metabolic changes could be picked up by computer programs, adapted from those credit-card companies use to detect crime by spotting sudden and unusual spending patterns amid millions of ordinary transactions.

How far away is this vision? It is beginning. Douglas Kell, a researcher at the University of Manchester in Britain, has already created a computer model based on metabolite profiles in blood plasma that can single out pregnant women who are developing pre-eclampsia, or dangerously high blood pressure. Research published last year by Rima Kaddurah-Daouk, a psychiatrist at the Duke University Medical Centre in America, may not only provide a test for schizophrenia, but also help with its treatment. She found a pattern of metabolites present only in the blood of people who had been diagnosed with schizophrenia. The patterns change according to the antipsychotic drugs patients take and this may throw light on why some respond well to certain drugs, but others suffer severe side-effects.

Studying genes alone does not provide such detail. Genes are similar to the plans for a house; they show what it looks like, but not what people are getting up to inside. One way of getting a snapshot of their lives would be to rummage through their rubbish, and that is pretty much what metabolomics does.

"If I asked someone to hold their breath for a while and we were monitoring their genome, we would think nothing had happened," says David Wishart, head of the Human Metabolome Project at the University of Alberta in Canada. "But if we took a look at their metabolome, we would see all kinds of wild changes." Dr

Wishart and his team of 50 scientists late last year released the first draft of the human metabolome—a database that contains the chemical fingerprints of some 3,000 metabolites, 1,200 drugs and 3,500 food components found in the human body.

One use for such information could be to help people with their diet. Advice about healthy living tends to consist of generalisations, like “eat low-fat products”. But there are big differences in the way people respond to food. About a third of people have problems with a very low-fat diet, says Lori Hoolihan of the Dairy Council of California. “It produces metabolic reactions that actually cause harmful LDL cholesterol to rise, increasing the risk of heart disease,” she says. Metabolic markers might pick up such variations.

-ome cooking

Yet personal diets bring another set of problems. As people’s responses to different foods become better understood, meals could become more like a course of medical treatment than a pleasure. And difficulties emerge. “How do you feed a family when everyone is on an individual diet?” asks Dr Hoolihan. “What happens to the family dinner?”

Despite such reservations, efforts towards healthier living are set to get more complicated. This is because there is another, even more elaborate and interconnected -ome. That is the microbiome and it covers the trillions of bacteria that treat people as their home. There are, for instance, in the crook of your elbow as many as six different types of bacteria, processing the fats that ooze from your skin and helping to moisturise it in return. At least 1,000 other species colonise the mouth, nose and gut. Two big projects have just begun to catalogue them all and understand what they do (see article).

The work is already starting to produce some surprises. Jeremy Nicholson of Imperial College London is exploring both the microbiome and the metabolome. His work suggests that looking for genetic links to chronic diseases like obesity, hypertension and heart disease may even be a waste of time.

Chinese and Japanese people are very similar at a genetic level, but Dr Nicholson found big differences in the type and variety of metabolites in their blood and urine. “It is a clear illustration of the major role played by diet and culture on your risk of chronic disorders,” he says. “Metabolomics can provide very specific pointers as to what is going wrong and new ways of intervening.” For instance, he found an unexpected metabolic marker, called formate, that seems to have a role in regulating blood pressure. Little is known about its effects, but changing its levels, possibly through diet or with different gut bacteria, might help to control high blood pressure.

Another of Dr Nicholson’s studies has even found a measurable difference between people who say they like chocolate and those who are indifferent to it. The research, supported by Nestlé, found apparent health benefits too. Not only did chocolate-lovers have lower levels of “bad” LDL cholesterol, but their guts were less likely to harbour the pathogenic bacterium *Clostridium difficile*, which kills thousands of people a year in hospitals.

Turning such intriguing findings into useful tests will take time. Thousands of people need to be tested and monitored for years to build up an accurate picture of what sort of metabolic patterns could make people ill. But the work has begun: the Human Serum Metabolome Project at Manchester University is collecting samples from over 5,000 people.

Some researchers believe that it will eventually be possible for a device that contains a single computer chip to analyse all the -omes. But that too will take a while to appear. At the moment it is possible to analyse only between 50-100 metabolites at a time, instead of the thousands a device would have to cope with. In the meantime, metabolomics will consist of individual tests—such as one to discover if chocolate is good for you.

The microbiome

Bug hunting

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An awful lot of microbes could reveal a great deal about the human body

THIS year teams of dedicated researchers working on the new Human Microbiome Project (HMP) began collecting faeces samples and swabs from the vagina, mouth, nose and skin of 250 volunteers. They are the modern equivalent of Victorian bug hunters, classifying new species in uncharted territory.

But rather than using nets and chloroform, their tools are the high-speed gene-sequencing machines developed for the Human Genome Project. And their task dwarfs the genome project: with perhaps 1,000 species under investigation, the number of bacterial genes could amount to 200,000, compared with 20,000 human ones. HMP is a $100m American project funded by the National Institutes of Health. Its aim is not only to classify the microbial inhabitants of humans, but also to identify where they live and what strains people have in common.

Meanwhile, a $30m European Union project—the Metagenomics of the Human Intestinal Tract (MetaHIT)—is concentrating on the links between gut bacteria and obesity and inflammation. Research has already found a big difference between the bacteria population in the guts of fat and thin people. Moreover, when obese people went on a diet and lost up to a quarter of their body weight, their gut flora changed too, becoming more like those of the lean group. So, could giving more of the lean type of gut bacteria to fat people help them lose weight? That is one of the questions the project hopes to answer. There is evidence it may. Certain probiotics can affect the production of bile acids, which in turn affect how much fat people absorb.

MetaHIT is also looking at how metabolites in the gut influence the efficacy of drugs in patients with inflammatory bowel disease. Certainly gut bacteria and inflammation are intimately entwined. Marika Kullberg of the University of York described last month how a molecule produced by one type of bacteria can calm the inflamed guts of mice.

She suggests that a massive rise in inflammatory bowel disease in recent years may be the penalty we are paying for such medical advances as antibiotics, vaccines and improved sanitation. By banishing various parasites from the gut, people have made the bacterial response to any challenges far more inflammatory.

Astronomy

Stars in their eyes

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An armchair astronomer discovers something very odd

THE task of peering into the cosmos and discovering strange new galaxies sounds like a job for astronomers armed with big and very expensive telescopes. But almost a year ago that all changed when a group of stargazers decided to ask the public to help in a project to explore the northern sky.

The Sloan Digital Sky Survey had been looking in this part of space for 16 years, producing so much information that astronomers assumed they would never get through it. So the public was let loose, to help sort what they had found. The scheme is called the Galaxy Zoo project.

It was so popular, says Alex Szalay, an astronomer at John Hopkins University, Maryland, that the computer servers on which the project ran “literally overheated and blew a fuse”. More important, within a month of the opening, Hanny van Arkel, a physics teacher from the Netherlands, posted a message on the zoo’s forum about some strange blue stuff she had spotted and asked what it might be.

By January the zoo’s professional keepers had started to pay attention to what the teacher had called a *voorwerp*, the Dutch word for object. Now it is becoming famous. William Keel, an astronomer at the University of Alabama, took another picture of the *voorwerp* and suggested that the human eye would probably see it as green, rather than blue as in the original picture. It also has a giant hole at its centre.

What this object might be was a complete mystery at first. It was initially thought to be a distant galaxy, says Chris Lintott, an Oxford University astronomer involved in the project. But after further study astronomers realised that there were no stars in it, and so it must be a cloud of gas. But why the gas was so hot (about 15,000ºC) was a mystery, because there seemed to be no stars to heat it up.

Now, in a posting on the Galaxy Zoo blog, Dr Keel and Dr Lintott suggest that the galaxy right next door to the *voorwerp* used to be a quasar (a very bright active galactic nucleus) that has since eaten up all its fuel. This quasar lit up the nearby gas, and although the quasar has since gone out, the light from it is still travelling to the object. The blob, says Dr Lintott, sees the galaxy as it was 40,000 years ago. This makes the *voorwerp* a sort of light echo but on a massive scale. Smaller light echoes have been seen around supernovae. As for the giant hole, Dr Lintott has “no sensible explanation” for that at the moment and needs to wait for more telescope time.

The weird blob could become immortalised as Hanny’s Voorwerp, the name given to the object in a paper Dr Lintott and his colleagues are submitting to the *Monthly Notices of the Royal Astronomical Society*. And towards the end of the year, if the mission to service the Hubble telescope goes as planned, a high-quality image of the *voorwerp* could emerge.

Data direct

Earlier projects in distributed computing, such as SETI@home, which searched for extraterrestrial life, have used the power of millions of home computers. But more recently, scientists have begun to realise that distributed human brain power itself can be a useful commodity, as in working out the shape of proteins. Dr Szalay says that the *voorwerp* episode has shown how immensely valuable the public can be.

When the data were put online Dr Szalay thought it was only a matter of time before someone made a big discovery. “It just happened much faster than we thought.” In the past year 40m classifications of galaxies have been submitted on 1m galactic objects in the Galaxy Zoo. Dr Lintott says that the project has proved that the public *en masse* is as good as professional astronomers at classifying galaxies.

The next step is to ask people to do more complicated things, such as keeping an eye out for weird

objects, which is bound to appeal to armchair astronomers. Hanny’s object had been there for decades, unnoticed in the astronomical archives. The idea now is for the public to explore strange new galaxies; to seek out new *voorwerps* and to boldly go where no amateur has gone before.

Psychology

The crowd within

Jun 26th 2008
From The Economist print edition

A battle of ideas is going on inside your mind

THAT problem solving becomes easier when more minds are put to the task is no more than common sense. But the phenomenon goes further than that. Ask two people to answer a question like “how many windows are there on a London double-decker bus” and average their answers. Their combined guesses will usually be more accurate than if just one person had been asked. Ask a crowd, rather than a pair, and the average is often very close to the truth. The phenomenon was called “the wisdom of crowds” by James Surowiecki, a columnist for the *New Yorker* who wrote a book about it. Now a pair of psychologists have found an intriguing corollary. They have discovered that two guesses made by the same person at different times are also better than one.

That is strange. Until now, psychologists have assumed that when people make a guess, they make the most accurate guess that they can. Ask them to make a second and it should, by definition, be less accurate. If that were true, averaging the first and second guesses should decrease the accuracy. Yet Edward Vul at the Massachusetts Institute of Technology and Harold Pashler at the University of California, San Diego, have revealed in a study just published in *Psychological Science* that the average of first and second guesses is indeed better than either guess on its own.

The two researchers asked 428 people eight questions drawn from the “CIA World Factbook”: for example, “What percentage of the world’s airports are in the USA?” Half the participants were unexpectedly asked to make a second, different guess immediately after they completed the initial questionnaire. The other half were asked to make a second guess three weeks later.

Dr Vul and Dr Pashler found that in both circumstances the average of the two guesses was better than either guess on its own. They also noticed that the interval between the first and second guesses determined how accurate that average was. Second guesses made immediately improved accuracy by an average of 6.5%; those made after three weeks improved the accuracy by 16%.

Even after three weeks, the result is still only one-third as good as the wisdom of several different people. But that this happens at all raises questions about “individuality” within an individual. If guesses can shift almost at random, where are they coming from?

One answer could be that they are evidence for the “generate and test” model of creative thinking. This suggests that the brain is constantly creating hypotheses about the world and checking them against reality. Those that pass muster are adopted. Guessing the answers to questions you do not know the correct answer to, but have some idea of what the right answer ought to look like, could tap into such a system. A hive mind buzzing with ideas, as it were, but inside a single skull.

Mustangs

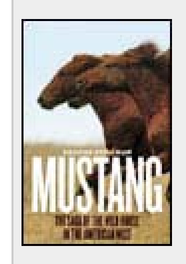
The killing fields

Jun 26th 2008
From The Economist print edition

AP


Long a symbol of freedom, America's wild horses may soon be no more

Mustang: The Saga of the Wild Horse in the American West
By Deanne Stillman



Houghton Mifflin; 348 pages; $25

IN 1964 a new car was launched at the New York World's Fair: the Ford Mustang. Both its name and its galloping horse logo, adapted from Frederic Remington's portraits of the Old West, epitomised a peculiarly American dream about a land of cowboys and big skies. More than 8m Mustangs have been sold. But on America's old frontier, the free-roaming wild horses now struggle for survival.

Deanne Stillman, a journalist, began researching this history in 1998 after 34 wild horses were massacred in the Virginia Range of mountains near Reno, Nevada. The horse began evolving on the North American continent 55m years ago, before crossing the Bering land bridge and spreading through Asia and Europe. The word mustang derives from the Spanish. Ms Stillman traces the return of the horse with the conquistadors; its partnership with Native Americans; its use in wars and cattle drives; its role in literature, lore and films; and its demise during the "Great Removal" of 1920-35 when hundreds of thousands of mustangs were sent to slaughter to provide cheap meat.

Her book culminates in the fight against the powerful cattle-ranching lobby which sees the animals as pests and wants them removed from the public (federally owned) land where cattle graze. Yet, as Ms Stillman points out, the area where most of America's mustangs run free today supplies just 3% of the country's beef.

The author quotes some startling statistics. In the 1700s there were so many mustangs in Texas that maps marked some areas merely as "Vast Herds of Wild Horses". In the American civil war, 1.5m horses and mules were killed or wounded. By the turn of the 20th century some 2m wild horses roamed the American wilderness. Only about 25,000 remain today, most of them on Nevada's vast swathes of public land, where wild horses have flourished beyond the reaches of man.

Legendary mustangs gallop through the book. Comanche survived being shot several times at the Battle of the Little Bighorn and lived out his days at Fort Lincoln begging for sugar-lumps and buckets of beer. Steamboat ejected thousands of cowboys from his saddle and became famous as "the horse who couldn't be rode".

Ms Stillman also includes William "Buffalo Bill" Cody and his Wild West shows, Charles "Pete" Barnham, a 19th-century mustanger whose method of running horses through a jute-lined chute into a trap is still

used today, and Velma Johnston, better known as "Wild Horse Annie", who launched a campaign to give mustangs federal protection. She succeeded in 1971, after a 20-year struggle, when President Richard Nixon signed the Wild Free-Roaming Horses and Burros Act, banning inhumane round-ups of mustangs and donkeys on public lands and preventing their sale for slaughter.

Special interests have since chipped away at that legislation. In late 2004 Conrad Burns, the then Republican senator for Montana, introduced a controversial amendment removing all protection for wild horses over the age of ten (which is not that old for equines) and those that have not been adopted on the third attempt under the government's controversial Adopt-a-Horse programme. Between 1971 and 2006, 200,000 mustangs were taken from the wild by Department of the Interior agencies such as the Bureau of Land Management (BLM), which administers America's 264m acres of public land.

"Mustang" makes for harsh reading. The cruel round-ups of the past, famously portrayed in John Huston's 1961 film "The Misfits", are more than matched by today's incidents in which mustangs are surreptitiously shot or fenced off from their water sources. The author argues strongly against the current federal round-ups—or "gathers" as the BLM prefers to call them—where helicopters run exhausted and panicking horses into corrals before they are sent to various fates. Around 30,000 mustangs are now kept in government holding facilities—more than those that still roam free. Some are due to be sold for adoption as "living legends", some will be sent to long-term pastures in Kansas and Oklahoma, where cattle ranchers are paid by taxpayers to keep them. Thanks to Mr Burns, approximately 8,000 will end up at the slaughterhouse. A sad end for the animal that was revered by Native Americans. "Horses are gods," a Hidatsa elder once said: "Treat them well. They have minds and understand."

Mustang: The Saga of the Wild Horse in the American West.
By Deanne Stillman.
Houghton Mifflin; 348 pages; $25

India's economy

Arvind v Arvind

Jun 26th 2008
From The Economist print edition

INDIA has always produced more economists than it can consume locally. It has enough of them to run the country with plenty left over to fill prestigious positions at foreign universities and international organisations.

These expatriates rarely forget their country of origin. Earlier this year Arvind Panagariya of Columbia University published “India: The Emerging Giant”. Now a second Arvind—Arvind Subramanian, of the Peterson Institute for International Economics in Washington, DC—has brought out another book on India’s economy, named “India's Turn”.

India's Turn: Understanding the Economic Transformation
By Arvind Subramanian



Oxford University Press; 237 pages; $39.95 and £19.99

Buy it at
Amazon.com
Amazon.co.uk

Comparisons between the two books are hard to resist. Mr Panagariya's book is the capstone of a career, a sustained work of scholarship. It demands a lot of its readers, and amply repays the investment. The author's father told him: “Take your time, but write a definite book on India.” The son did not disappoint.

Mr Subramanian may one day write such a book. But this is not it. Instead it is an assemblage of newspaper columns and academic papers, some not so new. Nor is it a great credit to its editors. Six typographic errors appear on a single page. Despite these distractions and the book's frequent recourse to econometric results, it is an easier read than Mr Panagariya's.

The two economists agree on a lot. Both are optimistic about India's prospects. But neither believes the country can become a major economic power without first becoming a manufacturing one. Both are wary of opening the economy further to foreign capital, which might bid up the rupee and undermine the competitiveness of its exports.

The two Arvinds cross swords on when and why India's fortunes turned. The breakthrough is often dated to 1991, when an embattled government cut tariffs on inputs, eased entry to foreign investors and largely dismantled industrial licensing. Seen this way, India's turnaround is a straightforward triumph of market-friendly reform. However, India's growth in the decade before the 1991 reforms matched its growth in the decade after.

The “dark age was not all dark”, Mr Subramanian writes. He believes India's response to the 1991 reforms owed a lot to the groundwork it laid in the 1980s and even earlier, when it acquired a skilled workforce and industrial experience, unharried by foreign competition. Bolder, earlier reforms would not necessarily have served India better. Mr Panagariya rejects this argument and even Mr Subramanian seems ambivalent about it. Later in his book, he argues that the pre-reform era has skewed India's development in ways that are not entirely welcome. Its businesses were herded into heavy industry, chemicals and engineering, leaving the economy reliant on capital and credentials, rather than the unskilled labour it has in abundance.

This has allowed India's most successful companies to prosper despite the onerous labour regulations which protect a minority of job-holders at the expense of legions of job-seekers. But precisely because these companies have learned to live with these laws, they do not lobby particularly hard to repeal them.

The author notes a similar pattern at work among India's newly affluent classes. Rather than fighting to reform its ailing public institutions, they opt out of them, enrolling their children in private schools, installing their own generators and gating their communities. This is a reasonable response to poor public provision, but it is dangerous. According to Mr Subramanian, crime is rising in India's richer states and armed insurgencies now threaten a quarter of its 610 districts.

These two books seem to be fighting different battles. Mr Panagariya patiently applies the simple truths of liberal economics to a country that still sabotages itself with some dotty regulations. Mr Subramanian, on the other hand, relishes anomalies and idiosyncrasies that test the conventional wisdom of his discipline and his Washington confrères. This contrarian bent is refreshing and sometimes rewarding. But one cannot escape the conclusion that although India is a net exporter of economists, its policies still suffer from a deficit of economic logic.

India's Turn: Understanding the Economic Transformation.
By Arvind Subramanian.
Oxford University Press; 237 pages; $39.95 and £19.99

Failed states

Nation-building for dummies

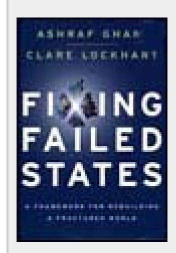
Jun 26th 2008
From The Economist print edition

AFGHANISTAN, Iraq and Somalia are among the 50 or so countries that can be described as failed or failing states. Although there are many differences between them, these nations also have certain characteristics in common. At any one time, these can include political and economic instability, poverty, civil disorder, terrorism, human trafficking, ethnic conflict, disease and genocide.

Ashraf Ghani and Clare Lockhart have worked in many of these countries. In 2005 they founded the Institute for State Effectiveness in Washington, DC, to help advise countries that are trying to make the leap from failed to functioning state. Before that, Mr Ghani was finance minister in the first post-Taliban government in Afghanistan.

Past efforts at state-building have been dogged, Mr Ghani and Ms Lockhart argue, by a failure to understand what developing countries need in order to be effective in the modern world, particularly with regard to engaging their citizens and connecting to the global network of economic and political power. The outside world has also failed to help struggling governments become effective. Instead, it veers between two unsatisfactory extremes: imposed solutions tinged with a colonial or imperial flavour, and the hands-off neglect of "interested observers".

Fixing Failed States: A Framework for Rebuilding a Fractured World
By Ashraf Ghani and Clare Lockhart



Oxford University Press; 254 pages; $24.95 and £13.99

It is often said that globalisation makes the traditional nation-state less relevant than it was before. Mr Ghani and Ms Lockhart disagree. Building an effective sovereign state is more crucial than ever, they say. In order to achieve this, developing countries must focus on establishing legitimacy at home and in the wider world at the same time.

At home, even before democratic processes are put in place, the authors favour extensive consultation, decisions taken from the bottom up and the introduction of autonomous spending powers. A new foreign-backed leader, taking decisions from the top down and often in secret, is far less likely to be seen as legitimate by citizens, or to inspire their loyalty. New programmes should be transparent and accountable. One success the authors cite, in a moment of justified self-congratulation, is the transformation of Afghanistan's public-finance system under Mr Ghani, who defied gloomy IMF predictions by introducing a new currency within four months, thanks in part to the use of the existing *hawala* informal banking network.

To improve legitimacy abroad, the authors argue for co-operation with international bodies and, above all, for a focus on integrating the domestic economy—and the majority of workers, not just a few elite companies—with the global economy. They point to the success of countries such as Singapore and Ireland in creating effective states and escaping from poverty through pro-market openness. Yet citing such rare examples of effective economic transformation can make the reader gloomier about the chances of doing the same in today's basket-case countries. The authors could have done more to explain why these countries are plausible models for civil-war-torn states such as Afghanistan and Iraq, especially as they seem sceptical about advocating the greater use of force, which lately seems to be working in Iraq and is necessary in Afghanistan.

Lack of leadership is one of the main reasons why attempts at fixing failed states so often fail. Mr Ghani and Ms Lockhart advise those in charge to immerse themselves in the proliferating business-management literature in order to understand the importance of putting in place a strategy, communicating it widely, prioritising what needs to be done and doing these in the most efficient sequence. The books they cite are Alfred Chandler's "The Visible Hand" and "Execution" by Larry Bossidy, the no-nonsense former boss of Honeywell, a computer company, and Ram Charan, a management guru; not the usual set-texts of nation-building.

Another problem, the authors argue, is the international aid system, which they say is “now deeply out of synch with the challenges of the contemporary world”. All too often, they point out, it is an obstacle to change rather than a catalyst. The first thing the United Nations provided in Afghanistan with some of the $1.6 billion of foreign aid with which it was entrusted in 2002 was a new airline to carry UN and other international staff and (occasionally) government officials, bypassing the existing national airline. The UN also made mistakes in Afghanistan’s first presidential election. The indelible ink to prevent multiple voting with fingerprints turned out not to be indelible after all.

Mr Ghani and Ms Lockhart have produced a useful book. Their chapter on the ten functions of the modern state should be helpful for policymakers everywhere. Yet their dense, academic style represents a missed opportunity, particularly for two authors with so much inside knowledge. Readers would have benefited from more straight storytelling about what happened in Afghanistan and Iraq, and what an America seriously committed to nation-building might have done better.

Fixing Failed States: A Framework for Rebuilding a Fractured World.
By Ashraf Ghani and Clare Lockhart.
Oxford University Press; 254 pages; $24.95 and £13.99

New fiction

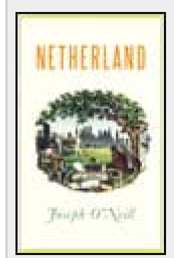
Bowled out, not over

Jun 26th 2008
From The Economist print edition

Illustration by Daniel Pudles



Netherland
By Joseph O'Neill



Pantheon; 272 pages; $23.95. Fourth Estate; £14.99

Buy it at
Amazon.com
Amazon.co.uk

TOO often the literary novelist's downfall—or shortfall—is plot. An Irishman brought up in the Netherlands and now living in New York, Joseph O'Neill exemplifies this curious blind spot in his new novel, "Netherland".

Also a neo-New Yorker, the hero Hans is a mild-mannered Dutch banker whose marriage founders during one of those life-reassessments that were so widespread in the immediate aftermath of the September 11th attacks. Mr O'Neill is good at capturing the atmosphere of exceptionalism and a sense of the centre not holding. The wife absconds with their son back to London. On his own in the Chelsea Hotel and reluctant to return to the loft from which the attacks have exiled the family, Hans falls into a friendship with an animated but shady entrepreneur named Chuck Ramkissoon, a Trinidadian determined to establish the city's first cricket club.

To ruin the suspense shamelessly: Hans will eventually come full circle and patch things up with his wife. Thereafter Chuck is murdered, off-camera and with no explanation. His death has no consequences for the narrator. The cricket club never materialises, a failure of no consequence either. Mr O'Neill tries to bulk Chuck into a quirky, charismatic character, but because he has nothing to do, in a cause-and-effect sense, his early effervescence goes flat, gently subsiding like warm, abandoned champagne.

Mr O'Neill ably describes some under-portrayed parts of New York, although his frequently cartographical approach ("On the Long Island Expressway I guided him past the red neon signs of Lefrak City and a certain Eden Hotel, past Utopia Parkway") makes it a bit too easy to envision him cruising these streets with a notebook. Any number of passages are droll or well-observed. Of the "we're-all-going-to-die sex" in the aftermath of a trauma, he comments: "it was my understanding that all sex, indeed all human activity, fell into this category." He aptly conveys his narrator's enthusiasm for cricket.

Yet the plot is light and fragile. Single pleasing paragraphs do not a sound novel make. However beguiling the decor, however beautiful the carved cornices, the gleaming brass fixtures, if the joists of a

building are made of balsa wood it is not a good investment.

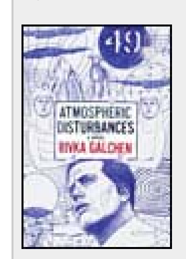
Netherland.
By Joseph O'Neill.
Pantheon; 272 pages; $23.95. Fourth Estate; £14.99

New fiction

Love the one you’re with

Jun 26th 2008
From The Economist print edition

Atmospheric Disturbances
By Rivka Galchen



Farrar, Straus and Giroux; 240 pages; $24. Fourth Estate; £12.99

Buy it at
Amazon.com
Amazon.co.uk

THE omniscient third person can often be a tedious fictional narrator. Authors tend to use this device when they want to show off their keen sense of the complexity of human nature—their insight into the thoughts behind the words, the pain behind the sneers.

But what could be more tiresome than a perspective that floats from head to head, with every character well-perceived, fleshed out and sympathetic? Surely, it takes much more restraint—and far more faith in one’s readers—to place the full heft of a book in the bumbling hands of an unreliable first person.

This is a clever trick, and tough to pull off. But Rivka Galchen, a 32-year-old doctor, manages it with admirable skill in “Atmospheric Disturbances”, her fiction debut. (That she departs from the route of sympathetic semi-autobiography used by most first-time novelists is itself worthy of praise.)

Leo Liebenstein, her awkward, misanthropic, middle-aged hero, is a delicious character. Humorously condescending and emotion-averse, he is a psychiatrist who is hard of hearing and fond of secrets (“I’m not very gracious in responding to performances of emotion,” he admits). Also, he may be seriously delusional.

The novel begins with him lamenting that his dear wife Rema has gone missing. She simply fails to come home one day. In her place is an imitator, a “simulacrum”, who looks and talks just like her. But Leo is not fooled. “Was Rema kidnapped or did she willingly leave?” he wonders. “Which would be worse?” This is a kind of love story—one that obliquely recognises the challenges of making love last. Leo sets off in search of the “real Rema”—a quixotic and often paranoid adventure that takes him to South America. He consults the work of Dr Tzvi Gal-Chen, a scientist at the Royal Academy of Meteorology, believing his scientific papers hold the key to his wife’s disappearance. Ms Galchen writes with impressive authority, spinning artful descriptions and punchlines that curdle unexpectedly. “My heart always goes out to beautiful people, which I realise really isn’t fair, but at least my heart goes somewhere,” Leo observes. His search for Rema starts to lose steam two-thirds of the way in, and the science can get a bit clunky. But the story is genuinely suspenseful, and Leo’s clause-heavy patter feels fresh and wry—his perspective curiously weird—even as he unravels. Ms Galchen is a writer to be watched.

Atmospheric Disturbances.
By Rivka Galchen.
Farrar, Straus and Giroux; 240 pages; $24. Fourth Estate; £12.99

American contemporary art

Bits and pieces

Jun 26th 2008
From The Economist print edition

Cy Twombly's sculptures are little known and quite surprising

MANY of the most delightful pieces in the Tate show of art by Cy Twombly, an elusive American artist commonly described as a post-Abstract Expressionist, are among his least familiar works. These are not his paintings, but his sculptures.

Mr Twombly, who is being given his first retrospective in 15 years, uses materials that have come to him at random—bits of wood, cardboard, bronze boxes, palm leaves and plastic flowers. The simplest sculpture is the most striking. Referring to it, the catalogue speaks of "one of the most elemental architectonic forms". It is composed of two cardboard tubes, a smaller one on top of a bigger one. Both are covered in white house paint. This may sound faintly ridiculous, but the finished object looks like a deeply satisfying classical column. Mr Twombly likes it so much he has kept it in his own collection.

Mr Twombly is a well-read painter, and his work is saturated with references to the Greek myths, and to poets such as T.S. Eliot and Rainer Maria Rilke. These are hard to decipher, unlike the clear influence of Alberto Giacometti. Two untitled sculptures from 1983 echo "the anguished and elongated frailty" of Giacometti's own sculpture. In one, a lovely long stem sprouting two leaves rises from a bronze base.

In a piece entitled "The Keeper of Sheep", painted palm fronds sit on a white box at the bottom of a white stick. Primitive-looking ships made from miscellaneous pieces of wood are held together by nails. The artifice is in the absence of artifice. Mr Twombly says with an engaging absence of modesty: "I like 90% of my sculptures. There's a certain perfectionism in most of them." It is nice of him to share them with us.

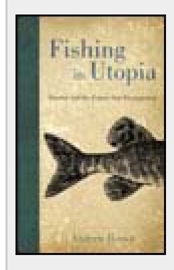
"Cy Twombly: Cycles and Seasons" is at Tate Modern, London, until September 14th

Sweden

Potential turbulence

Jun 26th 2008
From The Economist print edition

Fishing in Utopia: Sweden and the Future that Disappeared
By Andrew Brown



Granta; 261 pages; £15.99

Buy it at
Amazon.co.uk

FISHING, journalism, and the death throes of the Swedish social system are the unpromising ingredients of Andrew Brown's thought-provoking autobiographical memoir. The story of a young drifter who rebels against a privileged upbringing in Britain and goes away to work in a pallet factory in provincial Sweden in the late 1970s might seem impossibly dull. But Mr Brown's prose is as clear and bewitching as the lake waters in which he learns to fish. Having immersed himself, and the reader, in the all-encompassing conformism, thrift and diligence of the Sweden of that era, he charts the story of his own rebellion, disenchantment and ultimate reconciliation with a country that in the meantime changes almost beyond all recognition.

Having learnt his trade by jotting down choice phrases on bits of cardboard in the factory, Mr Brown becomes a journalist. Sweden proves surprisingly interesting: Soviet submarines haunt the coast, provoking panicky incomprehension in a public convinced that virtue equals untouchability. A secular priesthood of social workers snatch children from “elitist” parents (though that scandal, he later discovers, turns out to be not what it seems).

Flushed with success, he abandons small-town Sweden (and his first wife and child) for the delights of London. His time as Britain's best reporter of religion and his early evangelism for the internet are all but omitted; material, perhaps, for another book. Instead the focus is on his regular trips back to Sweden, sometimes as a correspondent, sometimes in search of somewhere sufficiently remote to write books: swapping what he calls the mosquitoes of distraction in city life for the thought-inducing real ones of a Swedish forest in high summer.

Readers who know the Nordic countries will delight in the author's keen ear and eye for the nuances of language, landscape and social customs. The polite incomprehension prompted by a papal visit to a place with almost no Roman Catholics is particularly well drawn. A Finnish journalist colleague invites Mr Brown to feel her thigh: she is wearing suspenders and a garter belt in what she coyly tells him is a protest against the church's repressive sexual mores. She follows it up with an invitation to dinner in Helsinki later. In some parts of the world, that would count as quite unusual.

The fish and the weather don't change (though Mr Brown's growing prosperity as a journalist means that he can afford better kit). But Sweden does. As the harsh echoes of the impoverished, hierarchical system of the 1930s fade, so too does the moral tone of the society. It is only the memory of poverty that creates the social discipline necessary for prosperity, he suggests; once that is forgotten, the seeds of decay begin to sprout.

Mr Brown is an interesting man; introspective and with perhaps a touch of prissy self-importance. Much the same goes for Sweden; like him, it has become less unusual than it used to be. Once home to a system that seems to modern eyes as distant as communism, it is now a more-or-less normal capitalist country, troubled by the task of integrating the tenth of the population that consists of unhappy and often unseen immigrants. What comes next? Even the sapient Mr Brown does not venture a guess.

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PEOPLE

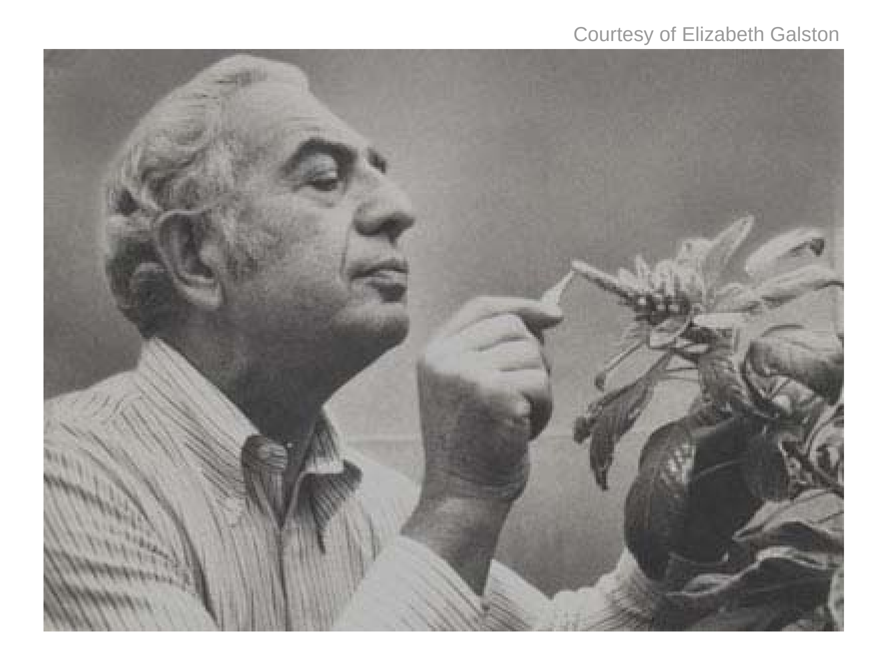
OBITUARY

Arthur Galston

Jun 26th 2008

From The Economist print edition

Courtesy of Elizabeth Galston



Arthur Galston, botanist, died on June 15th, aged 88

IT WAS the mangroves he noticed first, reduced to cobwebbed wraiths as far as the eye could see. The mud around them was clogged with their leaves, and the shellfish in it were dead. Then he saw the hills, once thick with teak trees, shaved bald like an old man's skull. He could have seen worse: children with monstrous lolling heads and palsied, tiny limbs, adults with gnarled growths erupting from their bellies. But these were hidden away in the hospitals. The trees were less adept at concealment.

What had been sprayed on them was millions of gallons of a herbicide known as Agent Orange. Fixed-wing aircraft flew over the jungles of Vietnam in swarms, dumping the stuff, which then drifted over crops and into villages. The food that was destroyed might have fed 600,000 people for a year. But it was perfectly harmless to people, said America's military men. They kept down the grass at bases with it, and the GIs hosed each other with it for fun. And there was no better strategy, at the height of the conflict in the 1960s, than to strip bare the river banks and forest trails where the Vietcong fought their war.

Arthur Galston was less sanguine. If you had asked him, on one of his visits to Vietnam in those years, whether Agent Orange was directly responsible for the sarcomas, lesions and deformities, he would have replied, like the careful scientist he was, that it was hard to make a connection solid enough to stand up in a court of law. But three things he was sure of. First, Agent Orange had caused "an ecological disaster" that might take decades to repair. Second, its use contravened the Geneva protocols against chemical and biological warfare. And third, he had a responsibility to speak, because this agent of horror was partly his child.

The birth had been accidental. As a young graduate student at the University of Illinois in 1943, he had been studying ways to make soyabeans—then a new crop plant from China—flower and set their pods earlier in the season, before the winter frosts. A mild spray with 2,3,5-triiodobenzoic acid brought them on nicely; but a stronger dose caused the plants to release ethylene, which digested the cell wall between leaf and stem and defoliated them.

Though Mr Galston soon had to go off to war himself, and then got sidetracked on the effort to find a new plant substitute for rubber, it did not occur to him that his discovery had military uses. It might, perhaps, be helpful to farmers. He was a botanist, who once spent a happy year in Stockholm isolating catalase from spinach leaves, and who patiently observed "rhythmic opening and closing in the dark in the plant Albizzia". He believed in the inherent beauty and usefulness of science. On the other hand, he knew that

any discovery was morally neutral. Society might apply it to good or evil ends.

As a plant physiologist, he was also aware that the life of plants was far from serene. They strained after light and water and struggled to cope with stress, of the sort that had made his soya seedlings drastically shed their leaves. They competed for food and saw off enemies. He watched oat seedlings warn each other of danger by releasing jasmonate acid, and tracked the dropping of poisoned leaves by the Sonoran brittlebush to ward off competition. But this did not mean, when the men from the chemical warfare unit at Fort Detrick started to exploit his findings in the 1950s, that he was happy to help wage war through and against plants.

Unanswered letters

The new potentised strain of his discovery appalled him, and the more so because it contained dioxin as a by-product of manufacture. The toxicity of dioxins was not then well understood, but Mr Galston had his fears from the beginning. From 1965 onwards, as the use of Agent Orange relentlessly increased in Vietnam, he lobbied both his scientific colleagues and the government to stop. Lyndon Johnson would not answer his letters; but Richard Nixon, faced with more suggestive statistics on the human cost from the Department of Defence, eventually agreed. In 1970 the spraying stopped. The ecological damage, and the cries for compensation from sick civilians and soldiers, continue to this day.

Mr Galston liked to call himself an accidental botanist: a Brooklyn boy, where barely a weed could poke between the bricks, who took agriculture at Cornell only because, with his father jobless in the Depression, he could go there free. He meant to be a doctor, with a sideline in playing jazz saxophone, but fell under the spell of a pipe-smoking botany teacher, and that was that.

History dictated that he also became an accidental bioethicist. For all his fine work at Caltech and Yale, his running of departments, encouragement of students and production of more than 300 papers on plant physiology, it was his sense of responsibility that most distinguished him. He once thought, he said, that the way to be a moral scientist was to avoid projects with bad applications. But he had changed his mind. The vital thing was to stay involved; to speak, write, testify, and make sure that research was turned not to evil, but to good. For more than 20 years he taught bioethics at Yale, a course he had started and which, by his last year, was one of the most popular in the college. His country forgot, but he did not, the mangrove ghosts.



Overview

Jun 26th 2008
From The Economist print edition

The **Federal Reserve** kept its key policy rate at 2%, after a two-day meeting on June 24th and 25th. The Fed said that the dangers to GDP growth had “diminished somewhat” but that inflation risks had increased. One member of the ten-person rate-setting committee voted for an increase.

America’s **housing market** shows few signs of recovery. Sales of new homes fell by 2.5% in May, but remained above March’s trough. House prices fell by 15.3% in the year to April, according to the 20-city index compiled by S&P/Case-Shiller.

India's central bank unexpectedly raised its benchmark interest rate from 8% to 8.5%, in response to higher inflation. The central bank of **Norway** raised its key interest rate by 0.25 percentage points, to 5.75%. The bank said that, with inflation rising, the prospect of a weaker economy was not enough to keep rates on hold. The need to keep inflation expectations stable was given as a factor in the decision to tighten policy. On June 20th **Mexico's** central bank raised its policy rate from 7.5% to 7.75%.

Firms in the **euro area** suffered a drop in business in June, according to initial results from surveys of purchasing managers. The headline readings for manufacturing and service industries both sunk below 50, indicating falling activity. The index of **German** business sentiment published by Ifo, a Munich-based research firm, fell in June to its lowest level since December 2005. Business confidence in **France** was broadly stable, according to INSEE, the national statistics agency.



Output, prices and jobs

Jun 26th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q1	+0.9	+1.2	+1.5	-0.1 Apr	+4.2 May	+2.7	+3.8	5.5 May
Japan	+1.3 Q1	+4.0	+1.3	+1.4	+1.9 Apr	+0.8 Apr	nil	+1.1	4.0 Apr
China	+10.6 Q1	na	+9.8	+9.0	+16.0 May	+7.7 May	+3.4	+6.5	9.5 2007
Britain	+2.5 Q1	+1.6	+1.7	+1.4	+0.2 Apr	+3.3 May§	+2.5	+3.0	5.3 Apr††
Canada	+1.7 Q1	-0.3	+1.4	+2.1	-4.8 Mar	+2.2 May	+2.2	+1.8	6.1 May
Euro area	+2.2 Q1	+3.2	+1.7	+1.5	+3.9 Apr	+3.7 May	+1.9	+3.1	7.1 Apr
Austria	+3.5 Q1	+3.2	+2.4	+2.2	+3.0 Apr	+3.7 May	+2.0	+2.6	4.2 Apr
Belgium	+2.2 Q1	+1.9	+1.7	+1.7	-1.3 Mar	+5.2 May	+1.3	+3.0	9.9 May‡‡
France	+2.2 Q1	+2.6	+1.7	+1.5	+3.2 Apr	+3.3 May	+1.1	+2.9	7.2 Q1
Germany	+1.8 Q1	+6.1	+1.9	+1.6	+4.8 Apr	+3.0 May	+2.1	+2.7	7.9 May
Greece	+3.6 Q1	+4.5	+2.8	+3.0	+2.0 Apr	+4.9 May	+2.6	+3.9	9.0 Mar
Italy	+0.3 Q1	+1.9	+0.6	+1.1	+2.0 Apr	+3.6 May	+1.5	+2.9	6.5 Q1
Netherlands	+3.1 Q1	+1.0	+2.6	+2.0	+0.4 Apr	+2.3 May	+1.8	+2.3	4.0 May††
Spain	+2.7 Q1	+1.2	+2.1	+1.8	+11.3 Apr	+4.6 May	+2.3	+3.8	9.6 Apr
Czech Republic	+5.3 Q1	+3.6	+4.7	+5.4	+12.2 Apr	+6.8 May	+2.4	+6.4	5.0 May
Denmark	+1.9 Q4	+1.2	+1.5	+1.7	+7.8 Apr	+3.4 May	+1.8	+3.0	1.7 May
Hungary	+1.7 Q1	+1.3	+2.0	+3.4	+6.7 Apr	+7.0 May	+8.5	+6.3	7.7 Apr††
Norway	+0.9 Q1	+0.8	+2.7	+2.4	-4.4 Apr	+3.1 May	+0.3	+3.4	2.5 Apr***
Poland	+6.1 Q1	na	+5.4	+4.3	+2.3 May	+4.4 May	+2.3	+4.2	10.0 May‡‡
Russia	+8.5 Q1	na	+7.2	+6.4	+6.7 May	+15.1 May	+7.8	+13.5	6.4 May‡‡
Sweden	+2.2 Q1	+1.6	+2.3	+2.1	+0.2 Apr	+4.0 May	+1.7	+3.0	5.9 May‡‡
Switzerland	+3.1 Q1	+1.3	+2.1	+1.7	+4.4 Q1	+2.9 May	+0.5	+2.0	2.4 May
Turkey	+3.4 Q4	na	+3.1	+4.0	+6.3 Apr	+10.7 May	+9.2	+10.5	11.6 Q1‡‡
Australia	+3.6 Q1	+2.5	+2.9	+3.0	+0.1 Q4	+4.2 Q1	+2.4	+3.6	4.3 May
Hong Kong	+6.8 Q1	+7.4	+4.8	+4.9	-4.4 Q1	+5.7 May	+1.3	+5.3	3.3 May††
India	+8.8 Q1	na	+7.6	+7.1	+7.0 Apr	+7.8 Apr	+6.7	+6.0	7.2 2007
Indonesia	+6.3 Q1	na	+5.9	+5.7	+2.6 Apr	+10.4 May	+6.0	+9.9	9.1 Dec
Malaysia	+7.1 Q1	na	+5.8	+5.8	+4.3 Apr	+3.8 May	+1.4	+2.8	3.0 Q4
Pakistan	+7.0 2007**	na	+4.6	+5.1	+4.3 Apr	+19.3 May	+7.4	+12.1	6.2 2006
Singapore	+6.7 Q1	+14.6	+4.5	+5.0	-12.8 May	+7.5 May	+1.0	+4.3	2.0 Q1
South Korea	+5.8 Q1	+3.3	+4.5	+4.3	+10.5 Apr	+4.9 May	+2.3	+2.9	3.2 May
Taiwan	+6.1 Q1	na	+4.3	+4.4	+5.3 May	+3.7 May	nil	+2.6	3.9 May
Thailand	+6.0 Q1	+5.9	+4.8	+4.7	+10.1 Apr	+7.6 May	+1.9	+7.2	1.5 Feb
Argentina	+8.4 Q1	+2.4	+6.3	+4.5	+8.6 Apr	+9.1 May	+8.8	+10.3	8.4 Q1‡‡
Brazil	+5.8 Q1	+2.9	+4.6	+3.8	+10.1 Apr	+5.6 May	+3.2	+5.2	8.5 Apr‡‡
Chile	+3.0 Q1	+5.8	+3.6	+3.8	+4.4 Apr	+8.9 May	+2.9	+7.5	7.6 Apr††‡‡
Colombia	+8.1 Q4	+6.8	+5.0	+4.5	+9.8 Apr	+6.4 May	+6.2	+6.0	11.0 Apr‡‡
Mexico	+2.6 Q1	+2.1	+2.3	+2.5	+5.5 Apr	+4.9 May	+3.9	+4.7	3.2 May‡‡
Venezuela	+4.8 Q1	na	+5.2	+4.0	-7.9 Mar	+31.4 May	+19.6	+30.8	8.2 Q1‡‡
Egypt	+6.9 Q1	na	+6.9	+6.8	+7.5 2007**	+19.7 May	+10.0	+15.5	9.1 Q4‡‡
Israel	+5.2 Q1	+5.4	+3.9	+3.6	+14.1 Apr	+5.4 May	-1.3	+4.2	6.3 Q1
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+10.5 Apr	+2.9	+8.5	na
South Africa	+4.0 Q1	+2.1	+3.9	+4.4	+9.8 Apr	+11.7 May	+6.9	+8.2	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+0.1 Q1	+7.8	-0.6	+2.0	-0.2 Apr	+11.3 May	+5.7	+10.0	4.1 Apr
Finland	+3.1 Q1	+2.8	+2.8	+2.3	+7.8 Apr	+4.2 May	+2.4	+3.7	6.3 May
Iceland	+1.1 Q1	-14.0	+1.1	+1.7	+0.4 2007	+12.3 May	+4.7	+10.0	1.0 May‡‡
Ireland	+3.5 Q4	-3.3	+1.4	+1.5	-0.9 Apr	+4.7 May	+5.0	+3.6	5.4 May
Latvia	+3.3 Q1	na	+2.4	+3.0	+3.7 Apr	+17.9 May	+8.2	+13.2	5.1 Apr
Lithuania	+6.9 Q1	-0.8	+5.6	+5.0	na	+12.0 May	+4.8	+10.2	4.5 Apr‡‡
Luxembourg	+3.8 Q4	+7.4	+3.9	+3.6	+8.8 Apr	+4.0 May	+1.9	+3.4	4.2 Apr‡‡
New Zealand	+2.8 Q4	+3.1	+1.4	+2.3	+4.2 Q4	+3.4 Q1	+2.5	+3.3	3.6 Q1
Peru	+6.6 Apr	na	+7.5	+6.4	+16.5 Apr	+5.4 May	+0.9	+4.8	7.9 May††
Philippines	+5.1 Q1	+3.0	+5.6	+5.7	-5.9 Mar	+9.6 May	+2.4	+6.8	8.0 April‡‡
Portugal	+0.9 Q1	-1.0	+1.5	+1.4	+1.5 Apr	+2.8 May	+2.4	+2.4	7.6 Q1‡‡
Slovakia	+8.7 Q1	na	+7.5	+5.2	+9.7 Apr	+4.6 May	+2.3	+4.0	7.4 May††
Slovenia	+5.4 Q1	na	+4.5	+4.0	+6.9 Apr	+6.4 May	+2.9	+5.4	6.6 Apr‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 4.3% in May. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Jun 26th 2008
From The Economist print edition

The Economist commodity-price index

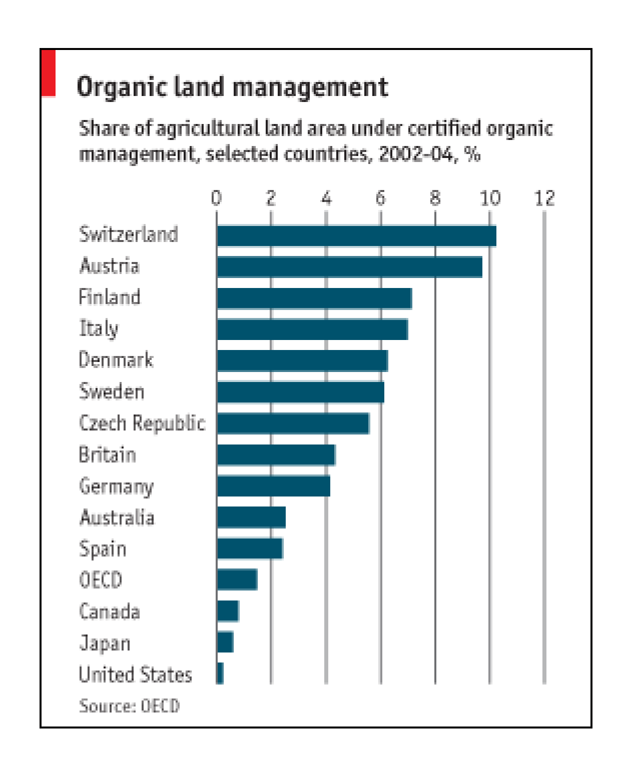
2000=100

	Jun 17th	Jun 24th*	% change on one month	% change on one year
Dollar index				
All items	267.7	266.1	+4.4	+31.6
Food	278.0	272.2	+7.9	+60.2
Industrials				
All	254.4	258.2	+0.0	+5.9
Nfa†	209.7	206.0	-0.1	+27.0
Metals	278.9	286.8	+0.1	-0.6
Sterling index				
All items	207.9	204.7	+4.6	+33.5
Euro index				
All items	159.7	157.8	+5.3	+13.6
Gold				
$ per oz	881.20	890.00	-2.2	+38.1
West Texas Intermediate				
$ per barrel	133.76	137.09	+6.7	+102.2

*Provisional †Non-food agriculturals.

Organic land management

Jun 26th 2008
From The Economist print edition



The share of farmland used for organic production has grown quickly in many rich countries, according to a new report on agriculture and the environment from the OECD, a think-tank. Swiss farmers are among the keenest on organic food production: more than 10% of their agricultural land is devoted to organic farming, up from less than 2% in the mid-1990s. Austria, with a similar landscape to Switzerland, comes a close second in the OECD rankings. Outside Europe organic farming is less popular. In America it accounts for just 0.25% of the land under cultivation. Japan's organic farms account for less than 1% of agricultural land. These countries drag down the OECD average to less than 2%.



Trade, exchange rates, budget balances and interest rates

Jun 26th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance*	Current-account balance		Currency units, per $		Budget balance	Interest rates, %	
	latest 12 months, $bn	latest 12 months, $bn	% of GDP 2008†	Jun 25th	year ago	% of GDP 2008†	3-month latest	10-year gov't bonds, latest
United States	−831.2 Apr	−710.7 Q1	−4.9	–	–	−2.4	2.29	4.11
Japan	+99.7 May	+213.5 Apr	+4.3	108	122	−2.9	0.75	1.69
China	+254.2 May	+371.8 2007	+9.8	6.87	7.62	0.3	4.48	4.45
Britain	−184.5 Apr	−115.4 Q4	−3.9	0.51	0.50	−3.2	5.93	5.11
Canada	+45.6 Apr	+14.5 Q1	+0.2	1.01	1.07	0.4	2.62	3.80
Euro area	+17.3 Apr	+5.3 Mar	−0.1	0.64	0.74	−0.9	4.96	4.58
Austria	+0.9 Mar	+12.2 Q4	+3.0	0.64	0.74	−0.4	4.96	4.78
Belgium	+12.3 Mar	+2.7 Dec	+2.1	0.64	0.74	−0.3	5.03	4.92
France	−61.6 Apr	−39.9 Apr	−1.6	0.64	0.74	−2.9	4.96	4.78
Germany	+278.7 Apr	+269.8 Apr	+6.1	0.64	0.74	1.1	4.96	4.60
Greece	−60.2 Mar	−46.4 Apr	−13.7	0.64	0.74	−2.6	4.96	5.20
Italy	−12.7 Apr	−57.8 Apr	−2.5	0.64	0.74	−2.6	4.96	5.21
Netherlands	+59.3 Apr	+50.7 Q4	+6.0	0.64	0.74	0.7	4.96	4.78
Spain	−147.1 Mar	−159.3 Mar	−9.1	0.64	0.74	−0.7	4.96	4.87
Czech Republic	+4.7 Apr	−3.6 Apr	−2.6	15.5	21.3	−2.2	4.23	5.05
Denmark	+4.2 Apr	+3.5 Apr	+1.0	4.79	5.54	3.6	5.60	4.91
Hungary	+0.5 Apr	−6.9 Q4	−5.9	152	184	−4.2	8.88	8.85
Norway	+70.7 May	+68.8 Q1	+17.5	5.10	5.93	17.8	6.50	5.08
Poland	−17.8 Apr	−19.9 Apr	−4.0	2.15	2.82	−2.0	6.60	6.45
Russia	+157.9 Apr	+92.4 Q1	+5.2	23.6	25.8	3.5	10.75	6.48
Sweden	+18.8 May	+40.4 Q1	+7.2	6.05	6.90	2.1	4.12	4.47
Switzerland	+14.6 May	+71.1 Q4	+14.8	1.04	1.23	0.9	2.81	3.34
Turkey	−68.6 Apr	−42.0 Apr	−6.5	1.22	1.33	−2.7	19.17	7.26‡
Australia	−22.5 Apr	−61.4 Q1	−5.9	1.05	1.19	1.6	7.82	6.48
Hong Kong	−24.4 Apr	+26.6 Q1	+9.3	7.81	7.82	3.0	2.33	3.64
India	−80.5 Apr	−12.8 Q4	−2.4	42.7	41.0	−3.2	8.04	9.23
Indonesia	+38.1 Apr	+10.9 Q1	+2.3	9,255	9,133	−1.8	9.36	7.46‡
Malaysia	+33.4 Apr	+28.9 Q4	+12.5	3.26	3.48	−3.1	3.69	4.44‡
Pakistan	−19.8 May	−10.5 Q1	−8.8	67.9	60.5	−4.7	13.57	11.29‡
Singapore	+29.6 May	+35.8 Q1	+23.3	1.37	1.54	1.0	1.25	3.10
South Korea	+5.3 May	+2.9 Apr	+0.3	1,038	928	0.5	5.36	5.87
Taiwan	+13.9 May	+32.2 Q1	+5.4	30.4	32.8	−1.8	2.73	2.65
Thailand	+6.3 Apr	+11.7 Apr	+0.4	33.6	34.6	−2.7	3.65	5.65
Argentina	+11.4 May	+7.9 Q1	+2.4	3.01	3.10	1.8	16.50	na
Brazil	+31.9 May	−15.2 May	−1.1	1.60	1.95	−1.9	12.17	6.16‡
Chile	+19.1 May	+4.3 Q1	−0.6	507	530	9.0	6.72	4.80‡
Colombia	+0.4 Mar	−5.9 Q4	−3.4	1,778	1,982	−1.6	9.92	5.95‡
Mexico	−8.9 May	−4.8 Q1	−1.1	10.3	10.9	nil	7.74	9.12
Venezuela	+30.1 Q1	+26.7 Q1	+10.6	3.42	4.23§	2.4	17.18	6.55‡
Egypt	−20.5 Q4	+0.5 Q4	+0.2	5.36	5.70	−7.1	9.68	4.90‡
Israel	−13.2 May	+4.4 Q1	+0.2	3.38	4.27	−1.3	3.88	5.54
Saudi Arabia	+150.8 2007	+95.0 2007	+38.4	3.75	3.75	26.2	3.56	na
South Africa	−11.1 Apr	−22.3 Q1	−8.0	7.91	7.19	0.4	12.40	10.59
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.3 Apr	−3.3 Apr	−10.5	10.1	11.6	−0.4	6.40	na
Finland	+12.3 Apr	+10.5 Apr	+4.7	0.64	0.74	4.5	4.80	4.78
Iceland	−1.4 May	−3.5 Q1	−12.2	81.1	62.8	0.7	15.82	na
Ireland	+37.2 Apr	−12.7 Q4	−3.2	0.64	0.74	−1.7	4.96	4.96
Latvia	−7.3 Apr	−6.2 Apr	−13.2	0.45	0.52	nil	5.86	na
Lithuania	−7.8 Apr	−5.8 Apr	−11.5	2.22	2.57	−0.7	5.53	na
Luxembourg	−6.3 Mar	+3.9 Q4	na	0.64	0.74	1.5	4.96	na
New Zealand	−3.5 Apr	−10.4 Q1	−7.0	1.32	1.32	1.9	7.95	6.41
Peru	+8.0 Apr	+0.8 Q1	−0.2	2.97	3.17	1.7	5.75	na
Philippines	−7.6 Apr	+6.4 Dec	+4.1	44.6	46.6	−0.5	6.00	na
Portugal	−29.3 Mar	−24.5 Mar	−8.5	0.64	0.74	−2.4	4.96	5.01
Slovakia	−1.1 Apr	−4.2 Feb	−3.2	19.5	25.2	−2.1	3.98	5.13
Slovenia	−3.4 Apr	−2.8 Mar	−4.0	0.64	0.74	−0.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.



Markets

Jun 26th 2008
From The Economist print edition

Markets

	Index Jun 25th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	11,811.8	-1.8	-11.0	-11.0
United States (S&P 500)	1,322.0	-1.2	-10.0	-10.0
United States (NAScomp)	2,401.3	-1.2	-9.5	-9.5
Japan (Nikkei 225)	13,829.9	-4.3	-9.7	-6.7
Japan (Topix)	1,346.1	-4.5	-8.8	-5.8
China (SSEA)	3,047.5	-1.2	-44.8	-41.3
China (SSEB, $ terms)	216.1	-1.0	-44.5	-40.9
Britain (FTSE 100)	5,666.1	-1.6	-12.2	-13.2
Canada (S&P TSX)	14,441.1	-4.2	+4.4	+1.8
Euro area (FTSE Euro 100)	1,087.2	-1.9	-20.9	-15.8
Euro area (DJ STOXX 50)	3,460.4	-1.4	-21.3	-16.3
Austria (ATX)	4,049.2	-3.4	-10.3	-4.5
Belgium (Bel 20)	3,361.7	-4.5	-18.6	-13.3
France (CAC 40)	4,536.3	-1.8	-19.2	-14.0
Germany (DAX)*	6,617.8	-1.7	-18.0	-12.7
Greece (Athex Comp)	3,584.5	-2.1	-30.8	-26.3
Italy (S&P/MIB)	30,009.0	-1.5	-22.2	-17.1
Netherlands (AEX)	439.6	-2.4	-14.8	-9.3
Spain (Madrid SE)	1,339.3	-1.6	-18.4	-13.2
Czech Republic (PX)	1,510.2	-7.0	-16.8	-2.2
Denmark (OMXCB)	407.0	-1.7	-9.3	-3.5
Hungary (BUX)	20,548.0	-4.0	-21.7	-10.6
Norway (OSEAX)	543.4	-4.3	-4.7	+1.4
Poland (WIG)	42,077.3	-2.0	-24.4	-13.7
Russia (RTS, $ terms)	2,310.7	-3.8	-3.0	+0.9
Sweden (Aff.Gen)	284.0	-3.5	-16.6	-10.9
Switzerland (SMI)	7,081.4	-1.4	-16.5	-9.4
Turkey (ISE)	37,572.6	-1.5	-32.3	-34.8
Australia (All Ord.)	5,363.1	-3.4	-16.5	-8.5
Hong Kong (Hang Seng)	22,635.2	-3.0	-18.6	-18.7
India (BSE)	14,220.1	-7.8	-29.9	-35.4
Indonesia (JSX)	2,341.4	-1.0	-14.7	-13.5
Malaysia (KLSE)	1,209.1	-0.3	-16.3	-15.2
Pakistan (KSE)	12,430.3	+1.4	-11.7	-19.8
Singapore (STI)	2,986.6	-1.8	-13.8	-9.5
South Korea (KOSPI)	1,717.8	-3.2	-9.5	-18.3
Taiwan (TWI)	7,855.1	-4.4	-7.7	-1.4
Thailand (SET)	778.4	+1.7	-9.3	-9.0
Argentina (MERV)	2,091.9	+2.1	-2.8	+1.6
Brazil (BVSP)	65,853.0	-1.8	+3.1	+14.7
Chile (IGPA)	14,933.9	+1.2	+6.1	+4.1
Colombia (IGBC)	9,293.3	-1.9	-13.1	-1.4
Mexico (IPC)	29,569.4	-0.2	+0.1	+6.2
Venezuela (IBC)	36,896.0	+0.5	-2.7	-38.9
Egypt (Case 30)	10,147.8	-3.7	-3.1	-0.2
Israel (TA-100)	1,016.6	-2.0	-11.9	+0.2
Saudi Arabia (Tadawul)	9,581.3	-2.0	+20.8	+20.8
South Africa (JSE AS)	29,964.6	-3.3	+3.5	-10.6
Europe (FTSEurofirst 300)	1,227.7	-1.9	-18.5	-13.2
World, dev'd (MSCI)	1,428.4	-2.0	-10.1	-10.1
Emerging markets (MSCI)	1,106.2	-2.9	-11.2	-11.2
World, all (MSCI)	362.0	-2.1	-10.2	-10.2
World bonds (Citigroup)	756.5	+0.4	+3.6	+3.6
EMBI+ (JPMorgan)	433.5	-1.0	nil	nil
Hedge funds (HFRX)	1,320.6	-0.5	-0.7	-0.7
Volatility, US (VIX)	27.3	22.2	22.5	(levels)
CDSs, Eur (iTRAXX)†	94.7	+11.1	+87.2	+99.3
CDSs, N Am (CDX)†	118.0	nil	+34.7	+34.7
Carbon trading (EU ETS) €	27.6	+0.1	+24.0	+32.0

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

Portugal

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